MASSACHUSETTS GOV. SEEKS INCOME TAX CUT 3

ELECTED OFFICIALS PLEDGE NO NEW TAXES 12

TAX FREEDOM 10-11

Budget&Tax News

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Senate Passes Four-Year Internet Access Tax Ban

by John Skorburg

The U.S. Senate on April 29 overwhelmingly passed legislation (S. 150) that would extend for four years the recently expired Internet tax moratorium. Alison Bennett, political reporter for the Bureau of National Affairs, called the action "a milestone vote."

The vote for passage was 93-3, breaking a six-month deadlock that began when the original moratorium expired November 1, 2003. While Congress is now closer to reinstating the ban on a temporary basis or even permanently banning internet access taxes, the Senate bill must still be reconciled with a measure passed in September by the House of Representatives.

Bennett reported, "last-minute support coalesced around a four-year compromise unveiled April 22 by Senate Commerce Committee Chairman John McCain (R-Arizona) after changes were made to the treatment of Internet telephone calls and existing Internet access taxes."

In addition to the four-year moratorium, the Senate version of the bill allows a handful of states that began taxing Internet access

INTERNET p. 8

Schwarzenegger Signs Workers Comp Reform

by Sandra Fabry

At a Boeing Co. aircraft factory on April 19, California Governor Arnold Schwarzenegger (R) signed SB 899, a bill reforming California's workers' compensation system. The measure had passed the state assembly 77-3 and the senate 33-3.

"This bill completes a process that brought together Republicans and Democrats, business and labor, and all the affected parties to produce billions of dollars in savings, protect workers, and root out fraud and waste in the system," Schwarzenegger said in a news release issued the day he signed the bill. "No longer will workers' compensation be the poison of our economy. Our message to the rest of the country and the world is that California is open for business. We are making our state once

SCHWARZENEGGER p. 14

IN THIS ISSUE

2	Penn. Begins Privatization
4	Col. Stalls on TABOR, Schools
5	Va. Passes $1.6 Billion Tax Hike
16	Kerry Plan Starts Class War
17	House OKs Marriage Tax Relief
18	Social Security Reform Needed

Pro-Tax Republican Loses Primary Battle in Nebraska

by John Skorburg

In an upset victory on May 11, an anti-tax candidate brought down one of Nebraska's leading Republicans in a hotly contested primary election for an open Congressional seat.

Jeff Fortenberry, a Lincoln City Council member from 1997 to 2001, defeated State Senator Curt Bromm with 39 percent of the vote compared to Bromm's 33 percent. Bromm, the powerful and well-known speaker of the unicameral Nebraska legislature, was endorsed by

NEBRASKA p. 6

State Senator Curt Bromm

Roll Call Photos

Illinois Chamber Sues to Stop Fee Increases

by Doug Whitley

The Illinois State Chamber of Commerce filed suit on April 22 against the State of Illinois challenging the constitutionality of increased business fees the group believes "unfairly burden employers in order to balance the state's budget."

The Illinois Chamber is asking a Cook County Circuit Court judge to strike down a fee paid by all Illinois businesses and the mechanism by which excessive fees are used to raise general revenue.

The Illinois Chamber doesn't object to reasonable and justifiable fees, but disapproves of the use of excessive fee increases to finance general government spending.

The Illinois Chamber's goal is to end

CHAMBER p. 15

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PRIVATIZATION

Pennsylvania Governor Launches Statewide Privatization Initiative

by John Skorburg

A "strategic sourcing" initiative launched by Pennsylvania Governor Ed Rendell (D) in late February has saved the state $50.5 million to date, although a Harrisburg-based nonprofit research organization says it's too soon to judge the program a success.

The Department of General Services (DGS) estimates Pennsylvania can use "strategic sourcing" to reduce costs by $100 million in 2004 alone for 20 commodities purchased to operate state government.

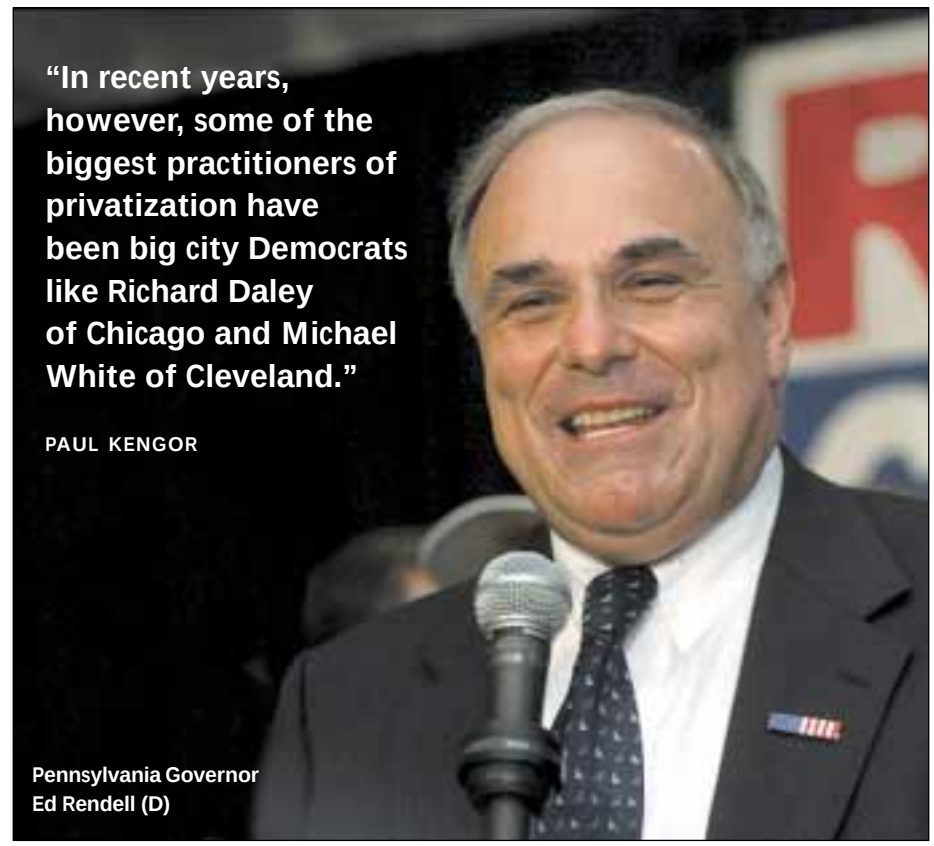
Matthew J. Brouillette and Grant R. Gulibon, writing in an April 5 *Policy Brief* for The Commonwealth Foundation, note, "the examples provided to date by the Rendell administration appear to indicate that strategic sourcing can generate such reductions, but the administration has acknowledged its projected level of savings … is subjective and has a lot of gray areas."

Brouillette and Gulibon caution, "any cost reductions achieved will not necessarily translate into lower levels of state taxes and spending," unless the sourcing program is closely monitored and enforced.

"[I]f the new contracts are not strictly enforced by both state government and the provider, little if any cost reduction can reasonably be expected to materialize, and small business participation of any type cannot be assured," noted Brouillette, who is president of Commonwealth. "Even worse, any cost reductions achieved will not translate into lower levels of state taxes and spending if Gov. Rendell's proposed budget increases are enacted."

Small business owners and some state legislators have expressed concern about the impact of Rendell's sourcing proposal. To address those concerns, the Commonwealth report summarizes several studies that have evaluated the impact of strategic sourcing (also known as "contract bundling") at the federal level.

"Though most of the findings and recommendations generated by these studies are oriented toward concerns about small business access to government contracts, not a lack of savings or service quality for taxpayers, data exist to suggest that taxpayers failed to realize the promised cost reductions in at least one federal government agency where contract bundling was employed," said Gulibon, who is a senior policy analyst with Commonwealth.


"In recent years, however, some of the biggest practitioners of privatization have been big city Democrats like Richard Daley of Chicago and Michael White of Cleveland."
PAUL KENGOR

Pennsylvania Governor Ed Rendell (D)

Past Support for Privatization

Rendell has shown his support for privatization in the past.

"When Rendell became mayor of Philadelphia in 1992, he inherited a fiscal disaster, painfully underscored by a $200 million deficit and a bond rating lowered to junk status. Within five years of his mayorship the deficit became a surplus. A sizable chunk of the savings came from privatization," noted Paul Kengor, associate professor of political science at Grove City College, in a 2003 article for the *Pittsburgh Post-Gazette*.

While mayor, Rendell privatized 49 services, generating $275 million in savings. Privatization of a Philadelphia nursing home, for example, cut the facility's annual operating cost by 54 percent and saved the city $26.6 million.

"Privatization has historically been viewed as a conservative Republican idea," noted Kengor. "In recent years, however, some of the biggest practitioners of privatization have been big city Democrats like Richard Daley of Chicago and Michael White of Cleveland.

"In a way, that's not a surprise: American cities, long the stranglehold of Democratic politicians, long bloated and debt ridden, are a target-rich environment for slashing government and turning many of its functions over to the private sector. Philadelphia was no exception," Kengor added.

Rendell's strategic sourcing initiative is "fully consistent with his track record in Philadelphia," Kengor wrote.

Right Direction

Though they cautioned against too quickly deeming Rendell's initiative a success, Brouillette and Gulibon gave him credit for moving in the right direction … and offered advice on the next steps to be taken.

"Although reining in spending in the Department of General Services (DGS) is hardly the beginning and end of taming state government's wasteful ways, at least the governor is starting somewhere," they wrote.

"In order for strategic sourcing to deliver on the promise of lowering the cost of government to Pennsylvanians," they continued, "the Rendell administration and the General Assembly need to inject competition into the provision of goods and services provided by state government, not just the ones it purchases."

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

INTERNET INFO

The April 5 *Policy Brief*, "The Rendell Strategic Sourcing Initiative: An Analysis," by Matthew J. Brouillette and Grant R. Gulibon, is available on the Commonwealth Foundation Web site at **http://www.commonwealthfoundation.org/issues/nr20040405.shtml**.

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Maryland Considering Express Toll Lanes

by John Skorburg

Maryland's Department of Transportation announced in early May it may establish a statewide system of express toll lanes, which department officials believe would help ease congestion on the region's highways.

"Money collected from drivers who use the express lanes to avoid traffic delays would make it possible to add lanes to major highways that might not otherwise be built for 40 or 50 years, if ever," Transportation Secretary Robert Flanagan said on May 4.

"We have horrible congestion problems in Maryland," Flanagan continued, addressing a news conference where department officials displayed toll lane plans as part of the solution for traffic problems.

Express toll lanes are special lanes added to highways that allow motorists to pay their way out of traffic jams. An electronic device mounted on a motorist's vehicle allows fees to be automatically deducted from a pre-paid account as the car or truck moves along the express toll lane at highway speeds.

Study Favors Congestion Tolls

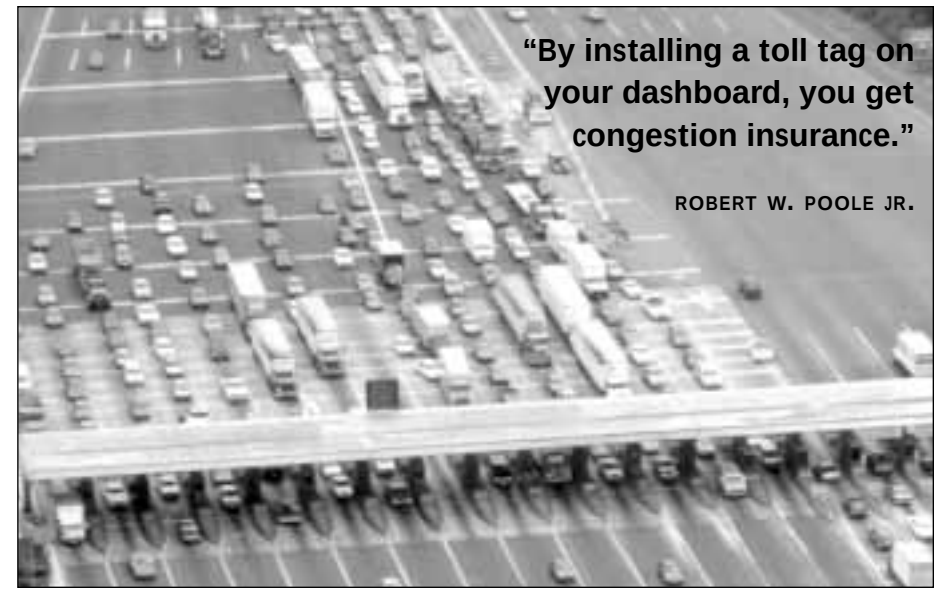
Research supports the express toll lane concept as a mechanism for reducing congestion. "Roads are a scarce good in great demand, but since we don't charge people for using them, overcrowding is the inevitable and eternal consequence," write Robert W. Poole Jr. and C. Kenneth Orski in *Regulation* magazine, published by the Cato Institute. "The way to alleviate congestion is to charge people sufficiently to reduce demand, thus allowing the free flow of vehicles, a principle as elementary and undeniably true as the law of gravity."

"People across the socio-economic spectrum are using them," Flanagan said when questioned at the Maryland news conference by an individual concerned that the new toll lanes would become Lexus Lanes. "Low-income drivers may not use them consistently, but may be willing to pay the toll when it is important to get somewhere quickly," he responded. Flanagan also noted, "drivers who use the regular lanes also benefit because some traffic is diverted to the new express lanes.

"Toll lanes also could be used by commuter buses, making mass transit a more attractive choice for commuters," he added.

"Driving on the nation's highways has nearly doubled over the past two decades, while road capacity has increased only 5 percent," wrote Poole in a recent column for *Forbes* magazine. "No wonder we're stuck in traffic.

"Although we may not be able to build our way out of congestion, we can price our way out of it," concluded Poole. "Drivers in California can buy a 65 mph trip in a limited access lane at rush hour. At the busiest times the price can exceed $6 to go 10 miles. That may seem expensive,



but saving 20 minutes can be worth it, even to people of modest means, like a working mother racing to pick up her child from day care before a late fee of $20 kicks in. By installing a toll tag on your dashboard, you get congestion insurance."

According to InsideBaltimore.com, Maryland officials have not yet decided to build express toll lanes. State Highway Administrator Neil Pederson described the lanes as "full-fledged alternatives" that will get serious consideration.

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INTERNET INFO

The *Regulation* magazine article by Poole and Orski, "Hot Lanes: A Better Way to Attack Urban Highway Congestion," is available through *PolicyBot*™, The Heartland Institute's free online research database. Point your Web browser to **http://www.heartland.org**, click on the *PolicyBot*™ button, and search for document **#15044**. The article is also available at the Cato Institute Web site at **http://www.cato.org/pubs/regulation/regv23n1/poole.pdf**.

Massachusetts Governor Calls for State Income Tax Cut

by John Skorburg

Massachusetts Governor Mitt Romney (R) on May 3 advocated a $225 million tax cut for the 2005 fiscal year, pointing to a resurgent economy that is sparking "extraordinary growth in revenues" after four years of fiscal crisis in his state.

Romney called on state lawmakers to take action on a tax cut that was approved by voters in 2000 but "forestalled by the Legislature in the midst of the state's economic downturn."

At a press conference, Romney announced the state has as much as $1 billion more in revenues for fiscal year 2004 and 2005 than he realized when he filed his budget in January of this year. State records show the state is running a $517 million tax revenue surplus heading into the last quarter of fiscal 2004, which ends June 30. April tax collections, reported in early May, were up $410 million over April 2003. Ten months into the fiscal year, collections are up $867 million over 2003, or 7.2 percent.

"The recovery is under way in Massachusetts," Romney said. "It is time to carry out the will of the voters. Let's get this under way. It helps the taxpayers, it follows their voice at the ballot box, and it further stimulates our economy."

"The recovery is under way in Massachusetts. It is time to carry out the will of the voters. Let's get this under way. It helps the taxpayers, it follows their voice at the ballot box, and it further stimulates our economy."

MASSACHUSETTS GOV. MITT ROMNEY (R)

Voters in 2000 approved a gradual reduction in the state's income tax rate from 5.85 percent to 5 percent. In 2002, however, the state legislature froze the rate at 5.3 percent.

According to townonline.com, Romney was especially pleased to see withholding taxes, a measure of employment, up $84 million, or 16 percent, during April.

"Something's happening out there. I can't tell you how many jobs that represents, but we're clearly going in the right direction and the trend seems to be consistent," said Revenue Commissioner Alan LeBovidge. "This is a big jump."

Massachussetts Governor Mitt Romney (R)

Mixed Reaction

Lead House budget writer, Rep. John Rogers (D-Norwood), said the House will take a "wait and see" attitude before acting on any proposed tax cut. "You can't look at one month and call it a recovery," Rogers said. "As much as I'd like to and love to do it, I'd love to say it. But you have to be very cautious before you say such a word."

"This is no time to change your policies of restraint and reform and limited taxation," Romney countered. "In fact, those policies helped get us where we are with regards to recovery."

Lowering taxes stimulates the economy, Romney told Boston.com News. "Tax cuts put Massachusetts in a better position to compete with other states for businesses and workers, and a thriving economy could fill the state's coffers."

Barbara Anderson of Citizens for Limited Taxation praised Romney for keeping his campaign promise to push for the lower tax rate.

"The typical Beacon Hill response is, 'Oh, we can't afford it, the voters didn't know what they were doing, and we want the money.' The unusual Beacon Hill response is a politician keeping his word and respecting the voters," Anderson said. "Now that the revenues are building again, if we don't do it, then they'll spend us into another fiscal crisis."

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Colorado Stalls on TABOR, School Funding

by Barry Poulson

The Colorado state legislature closed its general session on May 5 without addressing a growing conflict between two provisions of the state constitution.

The conflict is caused by the interaction of the Taxpayers Bill of Rights (TABOR) Amendment to the state constitution, which ratchets down revenue and spending, and Amendment 23, an education measure approved by voters in November 2000 that ratchets up spending.

"Because no bill emerged from the 120-day regular session of the Colorado General Assembly, Gov. Bill Owens (R) is likely to call lawmakers back into a special session to resolve the conflicts," said Tripp Baltz of the Bureau of National Affairs on May 7.

Revenue Neutrality Is Key

To pass muster with Colorado voters, who will have the final say on which, if any, reforms are adopted, the state legislature would do well to pursue proposals that are revenue-neutral and thus do not significantly increase the state's tax burden. The TABOR Amendment requires voter approval for any tax increase, and Coloradans have rejected several legislative attempts to increase taxes since TABOR was passed.

More than a dozen proposals to reform the conflicting constitutional amendments have already come from the legislature and the private sector. Some of these attempt to satisfy the revenue neutrality condition, while others do not.

The flaw in some of these proposals is that they replace the TABOR limit with an alternative limit. The TABOR Amendment—the most stringent tax and spending limit in the country—limits the growth in revenue the state can keep and spend to the sum of inflation and population growth.

When the economy is growing and revenue exceeds the limit, TABOR allows some of that revenue to be set aside in a rainy day fund. When the economy slows, the TABOR revenue limit is suspended so money can be transferred from the rainy day fund to the general fund to offset the revenue shortfall.

Replacing the TABOR limit with alternative limits would result in a less-effective constraint on the growth of government and a significant increase in the tax burden. For example, HCR-1010, proposed by Representative Brad Young (R-Baca), would impose a revenue limit equal to 6 percent of personal income.

"Replacing the TABOR limit with alternative limits would result in a less-effective constraint on the growth of government and a significant increase in the tax burden."

Between now and 2009, that limit would never constrain the growth of revenue and would result in an increased tax burden of more than $1.5 billion.

A proposal offered by the Campaign for Colorado Coalition calls for an even weaker limit, equal to 6.39 percent of personal income. The Bell Policy Center has proposed a limit based on the rate of growth of personal income; it also would be ineffective in constraining the growth of government.

Some proposals that purport to preserve the TABOR limit would in fact weaken it. HCR-1001, proposed by Representative Andrew Romanoff (D-Denver), would keep the limit defined as inflation and population growth, but would apply that growth rate to the previous revenue limit rather than to actual revenue. When revenue growth slows or declines, the limit would continue to increase. With such a disconnect between actual revenue and the revenue limit, it may take many years before revenue catches up to the ever-growing limit.

The Romanoff measure also would increase the tax burden in excess of $1.5 billion between now and 2009. In a future recession, the limit could become completely ineffective in constraining the growth of government.

Florida introduced a similar tax and spending limit at the beginning of the recession in the early 1990s. Revenues fell, while the limit continued to increase. The Florida limit never has constrained state revenue and spending, and it never will.

Cut Spending

Proposals that address only the TABOR Amendment are missing an important part of the reform equation. Addressing the conflict between TABOR and Amendment 23 will also require substantive reductions in spending for K-12 education.

Among other things, Amendment 23 mandates that per-pupil funding for public schools and total state funding for special-purpose education programs increase by at least the rate of inflation plus one percentage point for FY 2001-02 through FY 2010-11, and by at least the rate of inflation thereafter.

That mandate and others in Amendment 23 mean K-12 education spending is growing as a share of the state budget. That increased spending for education comes at the expense of other state programs. Spending cuts are concentrated in a few other state programs, such as higher education, prisons, and social welfare, because the legislature has discretion over less than one-third of the state budget.

"Addressing the conflict between TABOR and Amendment 23 will also require substantive reductions in spending for K-12 education."

Some legislative reform proposals, such as SCR-001 by Senator Ron Tupa (D-Boulder), would modify TABOR but require no changes in Amendment 23. Other proposals, such as Romanoff's HCR-1001, call for modest temporary reductions in education spending but do not significantly change the spending mandates of Amendment 23 in the long run. The proposal by Senator John Andrews (R-Arapahoe) in SCR-012 calls for significant reductions in K-12 education spending, but again not in the long run.

Colorado Governor Bill Owens (R)

At a minimum, any time revenue falls below the TABOR limit, the spending mandated by Amendment 23 should be suspended. The TABOR limit is also suspended in such situations; the reductions in spending for K-12 education can offset the increased spending that results from suspension of the TABOR limit, thus achieving revenue neutrality.

An alternative reform, likely to be more effective but less politically practical, would be to eliminate Amendment 23 entirely. No interest group should have such a privileged position in the state budget. Like any other interest group, the education lobby should be required to defend proposed expenditures for K-12 education, and the legislature should have the discretion to allocate spending among all competing interests.

Barry Poulson is a senior fellow in economic policy at the Independence Institute and professor of economics at the University of Colorado. His email address is **barry.poulson@colorado.edu**.

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Virginia Passes $1.6 Billion Tax Hike: Voters May Not Forget

by Geoffrey F. Segal

After more than 100 days of a bitter legislative session, Virginia lawmakers on April 28 approved a two-year budget totaling $60 billion. The budget includes a record tax increase of $1.6 billion, nearly 38 percent higher than what Governor Mark Warner (D) had originally sought from the Republican-controlled legislature.

"This was hard for a lot of people for a whole host of reasons," said Warner. The governor supported the final package.

The tax plan carried an original price tag of $1.36 billion but was increased due to a recalculation by the Finance Department. The General Assembly also voted to freeze the state's popular car tax relief program, which swept Republican James Gilmore III into the governor's office in 1997.

"We have somehow agreed to top Governor Warner's historic tax increase," bemoaned Delegate M. Kirkland Cox (R-Colonial Heights), a no-new-taxes advocate. "Oh well," he said bitterly, "yet another broken promise."

What Happened?

In November 2003, Warner broke his no-tax promise and proposed a $1 billion tax increase. He was dramatically one-upped when Senate Finance Chairman John Chichester (R-Stafford) offered his own plan raising taxes $2.5 billion.

The House of Delegates at first stood firm but eventually voted to remove tax breaks from several businesses supportive of the senator's plan. The senate responded by turning its plan into a $4 billion tax increase.

House Speaker William J. Howell (R-Fredericksburg), Attorney General Jerry Kilgore, and U.S. Senator George Allen (R) all lobbied aggressively against any tax increase. Howell repeatedly argued there was "no need for tax increases when the state's economy was recovering."

Kilgore, who is running for governor in 2005, attacked Warner's credibility with voters. At the same time, tax opponent Allen joined former Democratic Governor Douglas Wilder in urging a referendum on raising taxes—a suggestion quickly nixed by Warner and Chichester.

While the politicians were fighting in the foreground, tax opponents and proponents battled as well. Local and national tax groups organized and rolled out extensive grassroots campaigns in opposition. Their efforts were countered by a massive public relations campaign organized by unions and special-interest groups and coordinated in part out of Warner's third-floor office at the state capitol. Groups representing teachers, the state police, health care organizations, and local governments all participated in lobbying and advertising for tax increases.

What Passed?

The budget that passed on April 28 includes the first general tax increase in the state since 1986. Some specific features of the measure, which mixes higher taxes with tax relief, are an increase of the state's sales tax by a half-cent; raising the 2.5-cents-per-pack tax on cigarettes in two steps to 30 cents (20 cents in 2005 and 30 cents in 2006); and a 10 percent wholesale tax on tobacco products.

The plan grants income tax breaks to lower-income individuals and gradually reduces the tax on groceries, but it also limits income tax breaks for older Virginians and corporations and increases the fees for recording deeds from 15 cents to 25 cents per $100 of value.

Virginia Governor Mark Warner (D)

In the end, Warner got what he wanted: More money for education and other state programs. Proceeds from the sales tax will be split equally between the general fund and direct support for K-12 public education, sending an additional $378 million, on top of the usual funding increase, over the next two years.

"This has to be considered one of the most critical votes in the history of the commonwealth," said Senate Majority Leader H. Russell Potts Jr. (R-Winchester). "We have taken a bold step in making sure that future obligations are funded and future generations are adequately cared for."

Delegate Scott Lingamfelter (R-Prince William County) disagreed. "It's a bad day for families. It's a bad day for small businesses. It's a bad day for politicians who promised one thing and, when the pressure came, they caved in."

Some policymakers were disturbed by the upwards adjustment of the overall tax bite, from $1.36 to $1.6 billion. "We can add; we can subtract; we can calculate—they know and I know what they are doing, and I just don't like it," said Senator Stephen Martin (R-Chesterfield). House Appropriations Chairman Vince Callahan (R-Fairfax County), who voted for the taxes, added, "it's just too cute for me."

"An executive order issued by Warner … creates a working group to bring more transparency, accountability, and performance into the budget process."

Silver Linings

In more positive news for taxpayers, the bipartisan cost-cutting caucus, spearheaded by Delegate Chris Saxman (R-Staunton), offered several innovative cost saving initiatives this year. Among those signed into law:

- HB 1043, the Competitive Government Act, requires every state agency to analyze its workforce and identify competition opportunities. The process is similar to the rules and guidelines of the federal competitive sourcing agenda.
- Senator Jay O'Brien's (R-Clifton) SB 304 requires performance budgeting for drug and alcohol treatment and job training programs in the state. The concept is simple: Stop funding ineffective programs and focus efforts only on those services that achieve their goals.
- Two other bills, Saxman's HB 1037 and Del. Ed Scott's (R-Madison) HB 1447, authorize the attorney general to contract for long-term debt collection and require agencies to implement recovery auditing, respectively. By improving the collection of monies owed the state, and by finding and eliminating fraud and overpayment, the state can reduce its reliance on tax increases.
- Saxman also authored HB 1042, which requires the state Department of Corrections to conduct a cost-benefit analysis between public and private facilities before any new facility can be built in the state. Saxman considers prison privatization an important opportunity to save money in the state budget.
- An executive order issued by Warner mirrors a bill (HB 973) that passed the house but failed in the senate. It creates a working group to bring more transparency, accountability, and performance into the budget process.

Ballot Box Accountability

Local and national tax opponents have pledged to hold accountable those Virginia lawmakers who voted for the tax increase.

"Taxpayers are going to remember whether a promise made and a promise kept was just another bumper sticker or a promise you made in your heart," Lingamfelter warned during the tax debate on the House floor.

The budget battle, for which Warner has declared victory, has attracted national attention to the state. It remains to be seen whether that attention will help Warner in a likely bid for U.S. Senate in 2006, since he'll be forced to run on a record of raising taxes after promising during his gubernatorial campaign not to do so.

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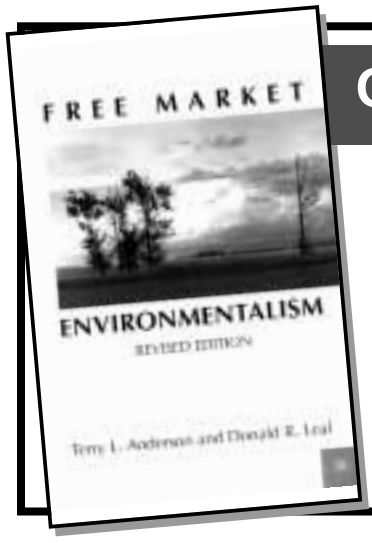

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Amended TABOR Measure Offered in Wisconsin

by Lance Burri

Relief from unfunded mandates, more generous spending limits for schools, and disincentives for the state to reduce local aids are all part of an amended version of the Lasee-Wood Taxpayer Bill of Rights (TABOR), offered by the authors on April 23.

"This amended Lasee-Wood TABOR is the result of a lot of work," said Rep. Frank Lasee (R-Bellevue). "We've talked with as many people as we could. Elected officials, interest groups from all sides, taxpayers. We took everyone's thoughts into account, and we spent a lot of time learning from the experiences other states have had with tax and spending limits."

"Taxpayers in this state need protection," said Rep. Jeff Wood (R-Chippewa Falls). "Our tax burden is too high. It hurts our economy, and people's ability to stay in Wisconsin.

"I hope this compromise will help relieve some of the concerns we've heard in the legislature and around the state," Wood said.

Lasee and Wood first introduced their TABOR proposal in November 2003. The new bill, introduced on April 23, makes the following changes to the original proposal:

- Inflation growth, the principal factor on which the TABOR limits are based, will be calculated as the average of inflation growth over the past three years, rather than a single year.
- Spending limits for schools and technical schools are increased.
- Governments are given more options for maintaining spending levels during economic downturns.
- A budget stabilization fund, funded with revenues received in excess of the TABOR limits, is created.
- The requirements for bonding referenda have been loosened.

"This amended version answers all the reasonable criticisms," Lasee said, "and it still does what TABOR is designed to do, what constitutions are supposed to do: Protect the citizens from their government."

"This amended version answers all the reasonable criticisms, and it still does what TABOR is designed to do, what constitutions are supposed to do: Protect the citizens from their government."

WISCONSIN REP. FRANK LASEE (R-BELLEVUE)

Colorado's TABOR has broad support among taxpayers, Lasee notes. "A poll conducted last March [2003] showed 60 percent of Colorado residents support the Taxpayer Bill of Rights. A further 16 percent support it but want some changes, and only 15 percent oppose it," notes Lasee.

"Critics say TABOR will devastate crucial services in Wisconsin. If that's true, how do we explain the support it still has in Colorado after 10 full years? And remember, this poll was taken at the tail end of the national recession, when Colorado, like most other states, was dealing with deficits and, therefore, reductions in spending," he adds.

Lance Burri works in the office of Rep. Frank Lasee. His email address is **lance.burri@legis.state.wi.us**.

INTERNET INFO

A PDF version of the amendment and a Legislative Council paper about the amendment are available on the Internet at **http://www.legis.state.wi.us/assembly/asm02/news/tabor.html**.

Nebraska

Continued from page 1

retiring incumbent Doug Bereuter and widely expected to win. Nebraska Cattlemen executive Greg Ruehle finished third in the seven-candidate field.

Bromm Supported Higher Taxes

"Speaker Charles Bromm ... last year led the fight in Nebraska for one of the biggest tax increases in state history," reported Steve Moore, president of the Club for Growth, a political action committee that raises campaign funds for free-market candidates nationwide, in a May 13 email.

"Then after the Republican governor vetoed the outrageous tax hike, Bromm led a successful fight to override the veto of the governor from his own party!" continued Moore. "After he won the tax fight, he said 'it may not be enough.' You can imagine what a trouble-maker this guy would have been in Congress."

In April, Americans for Tax Reform (ATR) criticized Bromm for failing to sign its no tax increase pledge, a pledge signed by Fortenberry. In a May 8 news release, ATR President Grover Norquist was quoted saying, "Curt Bromm left no stone unturned when he was looking for new ways to funnel money through his office in Lincoln. From the income tax to the dog-shampoo tax to the death tax, nothing was sacred or unreasonable for a new or increased tax. The diversity and perversity of this $343 million tax hike is stunning."

Norquist goes on to say, "Instead of trimming the state budget when times were tough, Curt Bromm took the easy way out. Nebraskans are paying the price now, and they'll continue to pay it long after Curt Bromm has left the speaker's office in Lincoln."

In his defense, Bromm pointed to votes cast during his legislative career to reduce taxes and his advocacy during the campaign of making President George W. Bush's tax cuts permanent. Bromm explained his refusal to sign ATR's tax pledge by saying it would be irresponsible to make such a pledge when circumstances and needs could change.

Club for Growth Plays Key Role

According to Fremontneb.com, front-runner Bromm was endorsed by Bereuter but "battered by a barrage of TV and radio attack ads aired by the anti-tax Club for Growth" and fell behind Fortenberry after starting the race "in the favored ... position." The ads, which ran on Lincoln and Omaha channels, warned that "Nebraska taxpayers can't afford" a big-spending Bromm in Congress.

Moore was quick to take credit, saying "we're delighted to report on a big win in Nebraska on May 11. We defeated the powerful pro-tax Speaker of the Nebraska Legislature from winning a primary for a U.S. House seat.

"Thanks to your help," said Moore's report, "this RINO [Republican In Name Only] won't be in Congress next year—or ever. The Club's PAC spent about $170,000 in hard-hitting TV and radio ads during the last 10 days of the race to

Jeff Fortenberry wins primary by being pro-taxpayer.

defeat one of the most confused Republicans on the planet."

The Lincoln, Nebraska *Journal-Star* reported May 12 that the Club for Growth was a decisive factor in the primary outcome. "Speaker Bromm, whose political views were closer to those of [retiring Congressman Doug] Bereuter, was targeted by a $170,000 Club for Growth ad campaign that hammered him for supporting state tax increases to meet budget needs during Nebraska's recent revenue shortfall. 'Those negative ads put Bromm on the defensive,' Bereuter said."

"Speaker Bromm was targeted by a $170,000 Club for Growth ad campaign that hammered him for supporting state tax increases to meet budget needs during Nebraska's recent revenue shortfall."

JOURNAL-STAR

"We wholeheartedly agree with that assessment," said Moore. "Our polling showed that once voters became aware of Bromm's indefensible voting record on taxes, his support fell faster than Enron stock during the accounting scams.

"The happy outcome of this election is a definite trade-up in the composition of Congress," according to Moore. "The winner, Mark Fortenberry, is a generally reliable free-market conservative. Our strategy of gradually improving the gene pool in Congress by making sure that all open-seat races go to strong pro-growth candidates is working well—though this approach takes time to rid the Congress of RINOs."

Fortenberry Is "Superb" Candidate

According to KETV7, TheOmahaChannel.com, Fortenberry "may have surprised some people" by winning the nomination over Republican front-runner Bromm, but U.S. Sen. Chuck Hagel and Gov. Mike Johanns said Fortenberry's win will "put a strong GOP candidate on the November ticket."

Hagel said Fortenberry is a "superb" candidate for Congress, and that he earned the party's support by running an excellent grassroots campaign that connected with voters.

According to the *Wall Street Journal*, Fortenberry was the "only GOP candidate to question last year's vote to expand Medicare" by adding a prescription drug benefit. "I'm worried that Congress did not fully comprehend, or was unwilling to face, the massive revenue required to fund this new entitlement," Fortenberry said.

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

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Idaho, Kansas Update Liquor Laws

by John Skorburg

For the first time in more than 70 years, Idaho consumers can buy distilled spirits any day of the week. Governor Dirk Kempthorne (R) signed legislation on March 19 authorizing county officials to permit Sunday alcohol sales in state-owned and state-contracted liquor stores; the law goes into effect on July 1.

Before the new law's passage, adult consumers were permitted to purchase only beer or wine on Sundays. Under the new law, county officials can vote to allow Sunday spirits sales in their state-controlled liquor stores, or they can place a Sunday-sales measure on the general election ballot for a popular vote.

Backers of the legislation considered it a victory for customer convenience and pointed out liquor stores would benefit from the additional foot traffic, increased liquor sales, and increased commissions they would make on those sales.

"This historic change is a big victory for Idaho consumers and tourists," said Peter Cressey, president of the Distilled Spirits Council of the United States (DISCUS), which lobbied aggressively in support of the bill. "Idaho joins the growing list of states that recognize the consumer and commercial benefits of Sunday spirits sales. Shoppers have more convenient choices, businesses are more successful, and the state generates additional revenue."

Idaho is now the 28th state—the seventh in the past two years—to roll back its Sunday sales ban. Within the past two years, DISCUS has been instrumental in repealing Sunday sales bans in Delaware, Massachusetts, New York, Oregon, Pennsylvania, and Rhode Island.

According to DISCUS, many other states—including Connecticut, Kansas, Ohio, and Virginia—are considering lifting Sunday bans as a way to "modernize the marketplace while raising much-needed tax revenue."

"If Sunday sales are rejected, thousands of Kansans will resort to going back to Missouri for their purchases, which would be as regressive as this state could get, considering our fiscal problems."
SENATOR DAVID HALEY
D-KANSAS CITY

Kansas Court OKs Sunday Sales

In a unanimous ruling on March 19, the Kansas Supreme Court upheld a 2003 ruling of the Wyandotte County District Court, which concluded "cities [can] exempt themselves from the state's Sunday alcohol sales ban because the 1949 Liquor Control Act did not apply uniformly to all cities." Under the state's home-rule amendment to the constitution, cities are permitted to exempt themselves from non-uniform acts.

Many retailers, who stayed open on Sundays while the court deliberated, hailed the ruling. "It's going to keep tax dollars here rather than going to Kansas City, Missouri," retailer Merrill "Pee Wee" Wright told the *Kansas City Kansan*. "My business has really been good on Sundays. It's like adding four more Saturdays every month. It hasn't taken away from the Saturday business, either."

The Sunday alcohol sales debate began in November 2002, when Kansas City, Kansas residents voted 59 percent to 41 percent to permit retail liquor stores to sell spirits, beer, and wine on Sundays. The state's attorney general challenged the measure in court after some municipalities began approving Sunday sales.

Wyandotte County led the way in approving Sunday liquor sales, and several other cities in the Kansas City area and around the state also have done so.

The court's decision permits cities to authorize Sunday alcohol sales, but also to ban them. On April 2, DISCUS urged the Kansas legislature to "pass uniform legislation allowing Sunday alcohol sales statewide."

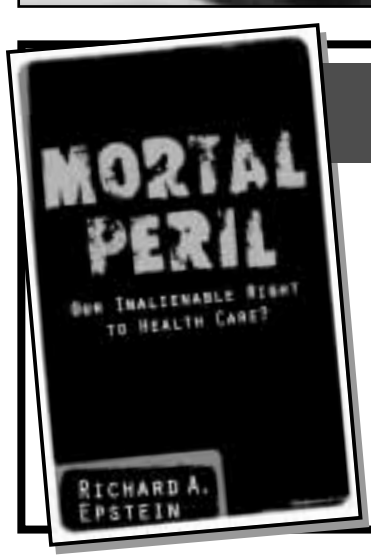
"This Supreme Court ruling is a win for consumers, small businesses, and the state of Kansas," said DISCUS President Cressey. "We call on the legislature to finally put this issue to rest by passing a uniform Liquor Control Act permitting the sale of alcohol on Sunday. Kansas consumers deserve no less."

In late April, Kansas senators voted 19-16 against allowing Sunday sales when that was presented as an amendment to a liquor laws uniformity bill. The bill passed 27-12, without Sunday sales.

The uniformity bill, which passed the state house in a different form, is likely destined for a conference committee.

"I hope that Sunday sales will emerge from the conference committee because the voters in the municipalities have already voted the referendum in support of it," said Senator David Haley (D-Kansas City). "If Sunday sales are rejected, thousands of Kansans will resort to going back to Missouri for their purchases, which would be as regressive as this state could get, considering our fiscal problems."

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.



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Internet

Continued from page 1

before the 1998 moratorium to continue levying those taxes until November 1, 2007, the same date the new moratorium would expire. The bill also allows 17 states that now tax DSL (digital subscriber lines) to continue those taxes until November 2005.

"This proves the Senate can come to a good result on a complex issue that affects millions of Americans and every state and local government," Senator Lamar Alexander (R-Tennessee) said shortly after the compromise bill passed.

Senate and House Still at Odds

The House of Representatives approved a permanent Internet tax moratorium in September of last year. House and Senate lawmakers will now meet in conference committee to reconcile the two. Rep. Christopher Cox (R-California) hopes "at least some elements of permanency" will find their way into the final legislation. "We're very pleased that the Senate has produced a bill ... and I'm confident that we can reconcile the two bills," Cox said.

A spokesman for Congressman F. James Sensenbrenner, Jr. (R-Wisconsin) agreed. "While we're pleased that the Senate has acted after allowing the moratorium to lapse for six months, the House bill is much stronger, and it's something the President is solidly behind," Sensenbrenner's spokesman told the Associated Press on May 3.

On an April 26 trip to Minnesota, Bush reiterated his support for a permanent ban on Internet access taxes. Bush considers it "unacceptable that the U.S., which has 24 million high-speed Internet subscribers, ranks 10th in broadband availability among industrialized countries.

"Tenth is ten spots too low as far as I'm concerned," Bush said. "We must not tax broadband access. If you want broadband access throughout society, Congress must ban taxes on access."

Bush said the government must clear out the "underbrush of regulation" to encourage the private sector to invest in broadband technologies.

Some State and Local Officials Oppose Ban

Some state and local elected officials have expressed opposition to a ban on Internet access taxes, saying such a ban would put off-limits an important source of tax revenue.

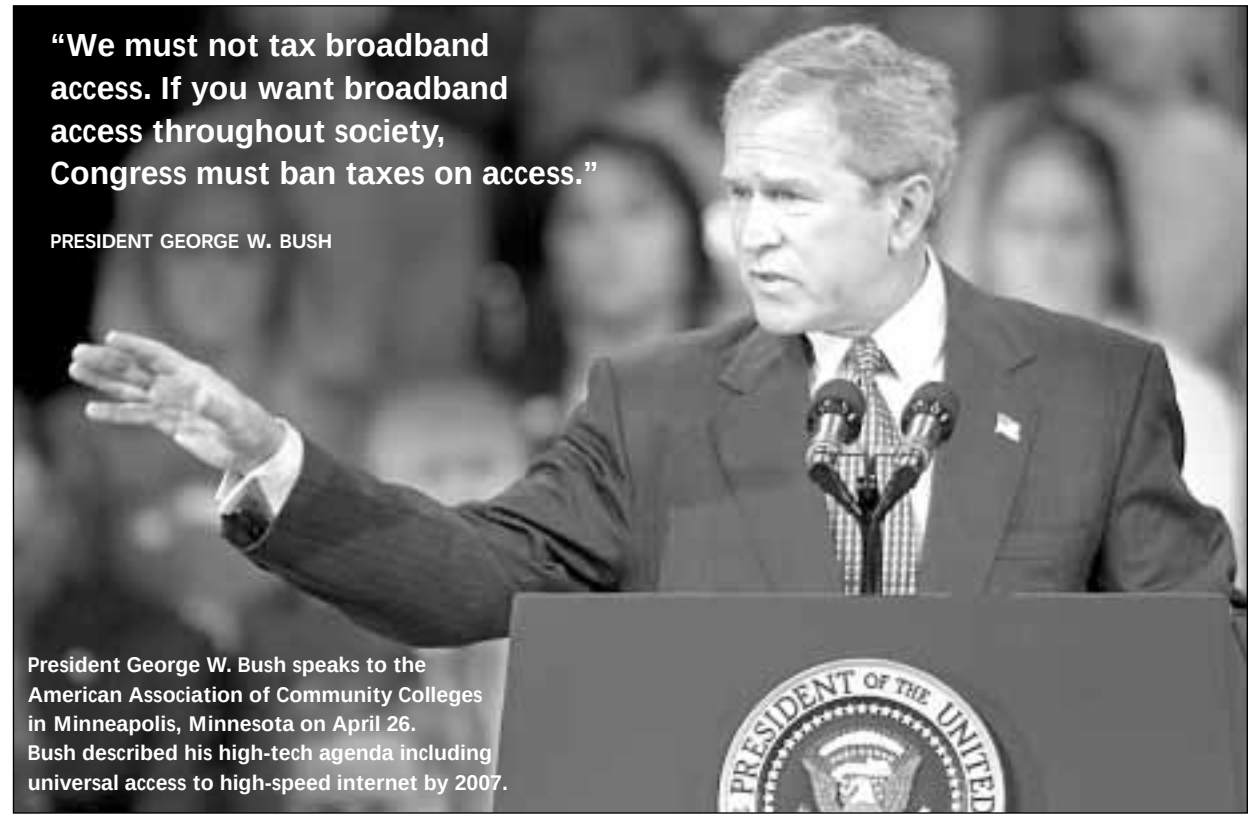
"As cities struggle to balance their budgets and provide critical services such as homeland security, law enforcement, education and transportation, we strongly oppose federal preemptions that would erode our revenue base," said Hempstead, New York Mayor James A. Garner, president of the U.S. Conference of Mayors, in February. "We also oppose permanent changes in tax rules on Internet access and telecommunications services at a time when technology is changing so rapidly. We must allow more time for technology to develop in this area before considering what should and what should not be taxed on a permanent basis," he said.

Senator Dianne Feinstein (D-California) told the *Sacramento Bee* the ban was "opposed by more than 470 California cities as well as organized labor and firefighters," who feared their "inability to tax Internet access could cost local jurisdictions as much as $836 million each year in potential revenue." Feinstein nevertheless voted to extend the tax moratorium.

Industry Supports Tax Ban

Business leaders and telecom industry representatives do not agree with state and local officials who say they need more money.

Walter McCormick, president of the United States Telecom Association, considers a permanent ban on Internet access taxes to be a top priority. "Permanently shielding Internet access from traditional telecom taxation, which ranks right up there with cigarettes, alcohol, and gas taxes [as a tax target for state legislators], is a bold position with historic implications for the nation and its broadband competitiveness."


"We must not tax broadband access. If you want broadband access throughout society, Congress must ban taxes on access."
PRESIDENT GEORGE W. BUSH

President George W. Bush speaks to the American Association of Community Colleges in Minneapolis, Minnesota on April 26. Bush described his high-tech agenda including universal access to high-speed internet by 2007.

EPA Photos

"We don't need more taxing options in New York State," wrote Daniel B. Walsh, president of the Business Council of New York, in April 21 letters to New York's two U.S. senators. "The Internet is not a luxury for businesses. It is a necessity for global competition. Adding costs to an essential service goes directly against what we are trying to do to bring down state and locally imposed costs."

The recently expired moratorium on state and local Internet taxation was created in 1988 and extended in 2001. New York Senator Charles Schumer voted for the extension, and Senator Hillary Clinton voted against it. Both senators voted in favor of the moratorium extension the Senate passed in April.

The Information Technology Association of America (ITAA) on April 30 heralded the Senate vote as "a major step toward delivering on America's digital opportunity, and as a significant contributing factor to a continued recovery in the technology industry."

Harris N. Miller, president of ITAA, said the sponsors of the bill, Senators George Allen (R-Virginia) and Ron Wyden (D-Oregon), "and other lawmakers on both sides of the aisle have worked tirelessly over many months to do what is right for our industry and American consumers. Burdensome taxes on Internet access would stifle growth in the technology sector, when our national goal should be to expand the educational and economic opportunities that come with access to the Internet."

Miller continued, "As the high-tech sector begins to recover, we're seeing increased investment in IT products and services as well as the creation of new jobs. Additional taxes would hamper investment in broadband and only stifle the recovery that is already underway."

John Skorburg is the managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

INTERNET INFO

The Senate and House versions of the Internet access tax moratorium measure are available through *PolicyBot*™. Point your Web browser to **http://www.heartland.org**, click on the *PolicyBot*™ icon, and search for documents **#15042** (Senate version) and **#15043** (House version).

The Web site of the Information Technology Association of America offers links to several policy statements on the moratorium. Point your Web browser to **http://www.itaa.org/taxfinance/index.cfm**.

Colorado Gov. Supports Tax-Free Internet Access

April 28, 2004
The Honorable William Frist
Majority Leader, U.S. Senate
S-230 U.S. Capitol
Washington, DC 20515

Dear Majority Leader Frist:

Thank you for your leadership in the Senate on issues critical to Colorado and the United States. As you continue this work, I write to offer my support for a permanent ban on all types of Internet access taxes.

Access to the Internet continues to grow in the United States and around the world. In fact, a recent report by the Pew Internet and American Life project found that the number of Americans with access to high speed Internet connections increased by 60 percent in the last year alone. As you know, greater Internet access means more buying power for consumers, new markets for small businesses, and a stronger American economy.

This rapid growth is due in large part to the federal moratorium—a policy that keeps the hand of government from taxing the "onramp" to the Information Superhighway. As our economy continues to rebound, it makes sense to encourage small business owners, as well as rural and urban consumers, to use the Internet—not burden them with new taxes and barriers to economic prosperity.

In Colorado, I enacted a permanent moratorium on state and local Internet access taxes four years ago, and I hope that the Senate will do the same. In the event that the Senate cannot reach consensus on a permanent ban, I urge you to enact the McCain compromise amendment, preserving the longest moratorium possible.

Sincerely,

Bill Owens
Governor of Colorado

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2004 Tax Freedom Day E

by Bill Ahern

According to calculations by the Washington, DC-based Tax Foundation, Tax Freedom Day in 2004 was celebrated on April 11, the earliest in 37 years. This year, Tax Freedom Day came three days earlier than in 2003 (April 14) and an amazing 21 days earlier than in 2000, when tax burdens were at record highs and Tax Freedom Day did not arrive until May 2. (See Figure 1.)

Tax Freedom Day marks the day when Americans will have earned enough money to pay off their total tax bill for the year. Every dollar that's officially called income by the government is counted, and every payment to the government that is officially considered a tax is counted. Taxes at all levels of government—federal, state, and local—are included.

The Tax Foundation's Tax Freedom Day calculations give Americans an easy way to gauge the overall tax take, a task that can be quite daunting due to the multiplicity of taxes at each level of government, especially the "hidden" taxes and fees often buried in the cost of living. In effect, Tax Freedom Day provides taxpayers with a tax barometer that measures the total tax burden over time and by state.

"Federal tax cuts have made the average American tax burden lighter in 2004," said Tax Foundation President Scott Hodge. "Because the bubble in 1999 and 2000 boosted tax collections to artificially high levels, the drop since then is all the more dramatic. In fact, it is the biggest drop in America's tax burden for at least a century."

In Tax Foundation *Special Report* No. 129, "America Celebrates Tax Freedom Day," Hodge and Senior Economist Scott Moody trace the course of America's tax burden since 1900. They examine the composition of today's tax burden by type of tax, project the future course of Tax Freedom Day, and compare tax payments to other consumer expenditures.

Figure 1: Tax Freedom Day, 1963-2004

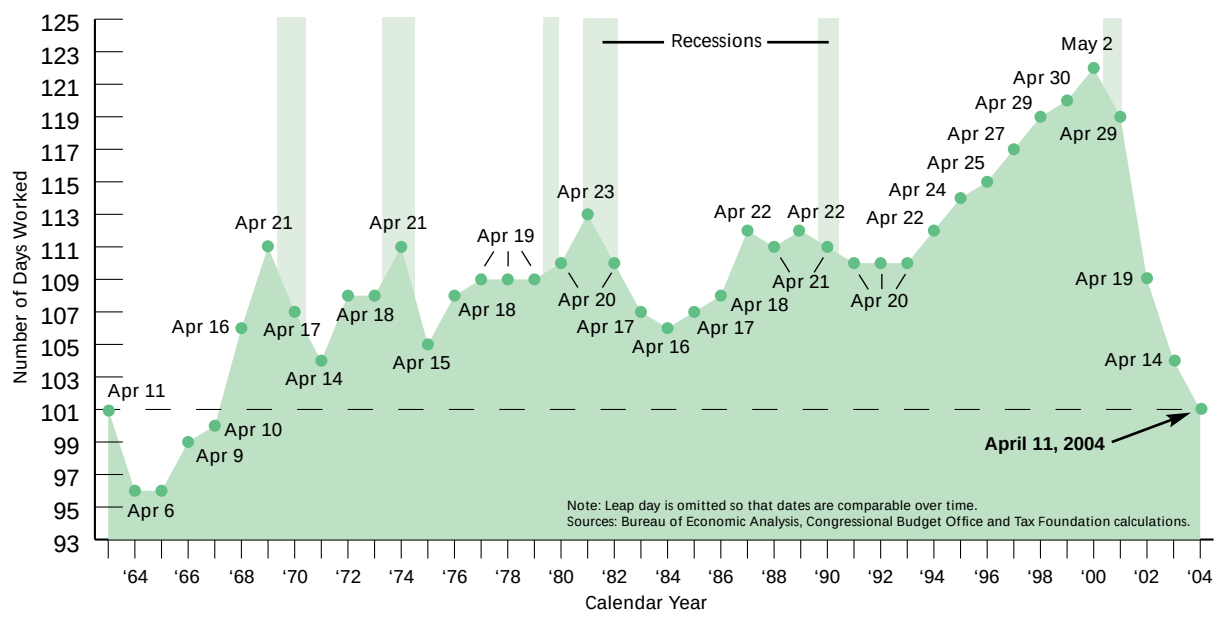
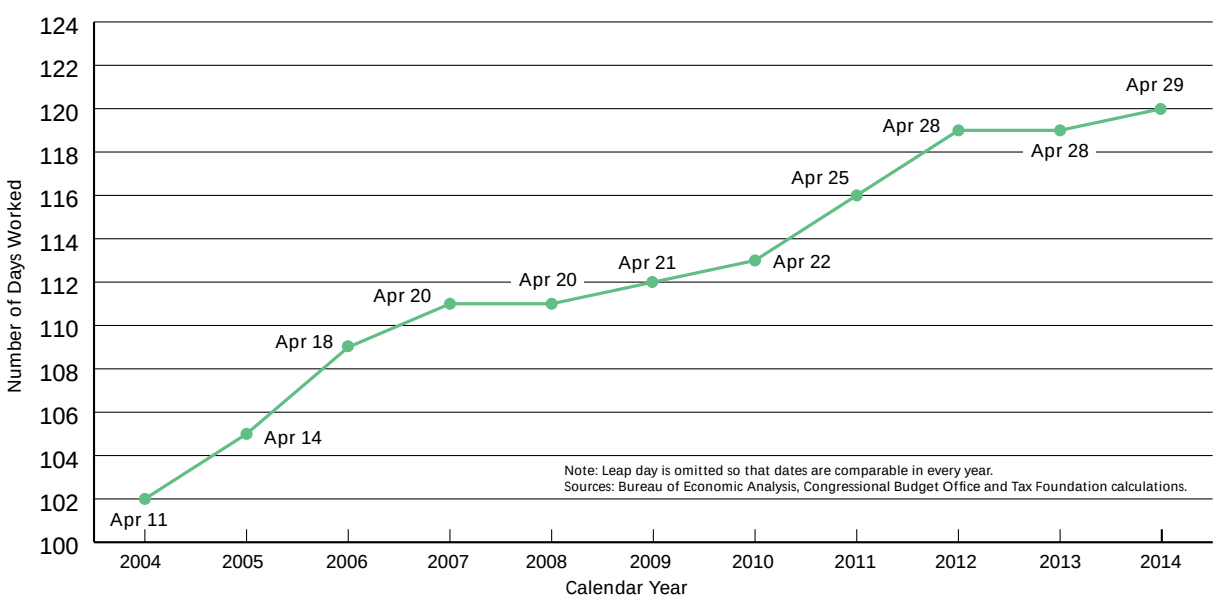


Figure 2: Projected Tax Freedom Day, 2004-2014



The Future of Tax Freedom Day

Tax legislation being debated this year will affect the course of future Tax Freedom Days. "The President wants to keep such popular tax cuts as the child tax credit, the 10 percent bracket, and the marriage penalty relief at their most generous levels, which they have reached in 2004, rather than let them dip as they are scheduled to do under current law," notes Hodge.

"Senator Kerry also speaks out in favor of those tax cuts but promises repeal of tax cuts for higher-income taxpayers," Hodge adds. According to the Tax Foundation, if current law prevails, the tax burden will start growing again, and next year Tax Freedom Day will fall later in April. (See Figure 2.)

Taxes and Other Expenses

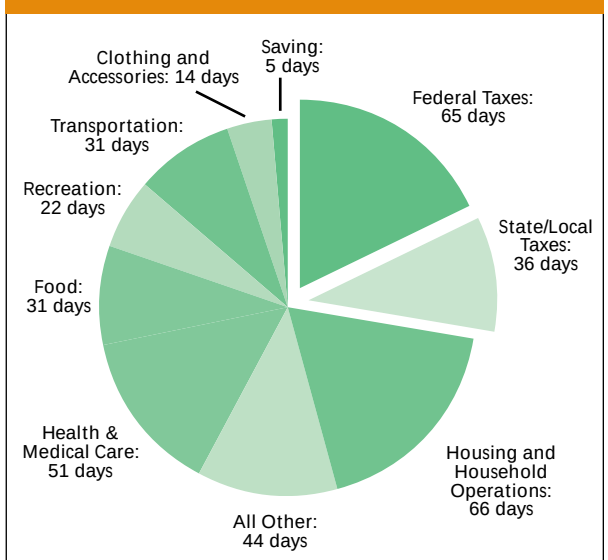
Hodge and Moody also compare the number of days Americans work to pay taxes to the number of days they work to support themselves. "Despite the dramatically lower tax burden in 2004, Americans will still spend more on taxes than they spend on food, clothing, and medical care combined," said Hodge.

In 2004, Americans will work 65 days to pay their federal taxes and 36 more days to pay state and local taxes. Other categories of spending that require many days of labor are housing and household operation (66 days), health and medical care (51 days), food (31 days), transportation (31 days), recreation (22 days), clothing and accessories (14 days), saving (5 days), and all other (44 days). (See Figure 3.)

Tax Freedom by Type of Tax

As most taxpayers are aware, income taxes are the type of tax we work longest to pay—a total of 36 days, with 28 of those days worked for Uncle Sam and 8 more days to pay off state and local income taxes. Social insurance taxes, which along with income taxes are deducted

Figure 3: How Many Days Per Year America Works to Pay Taxes Compared to Other Major Spending Categories, 2004


Federal Taxes: 65 days
State/Local Taxes: 36 days
Housing and Household Operations: 66 days
All Other: 44 days
Health & Medical Care: 51 days
Food: 31 days
Recreation: 22 days
Transportation: 31 days
Clothing and Accessories: 14 days
Saving: 5 days
Sources: Bureau of Economic Analysis and Tax Foundation calculations.

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directly from most people's paychecks, require 28 days' worth of work. Sales and excise taxes require 16 days of work, property taxes 11 days, and business taxes 9 days. (See Figure 4.)

Tax Freedom Day by State

Tax burdens vary considerably from state to state, not only because of different state and local taxes, but because of divergent federal tax payments. Therefore, the report includes a separate calculation of Tax Freedom Day for each state.

The five states with the heaviest tax burdens, whose taxpayers therefore wait the longest for Tax Freedom Day, are all in the northeast: Connecticut (April 28), New York (April 27), New Jersey (April 19), Massachusetts (April 18), and Rhode Island (April 16). Because the cost of living and salaries are higher in these states, taxpayers must work longer to pay their disproportionate share of progressive federal income taxes. The next five most-taxed states in 2004 are Maine (April 15), Washington (April 15), Wyoming (April 14), Nevada (April 13), and California (April 13).

The five states with the lightest total tax burdens celebrate Tax Freedom Day the earliest. March 26 is the earliest of all. That's when Alaskans celebrated. Alabama, Tennessee, and South Carolina have the second, third, and fourth lightest total tax burdens, and they were all done working for government on April 1. Oklahoma, Mississippi, Louisiana, and South Dakota all celebrated Tax Freedom Day on April 2, while North Dakota and Iowa celebrated April 3. (See Table 1, columns 5 and 6 for this year's data.)

Comparing State/Local Tax Burdens

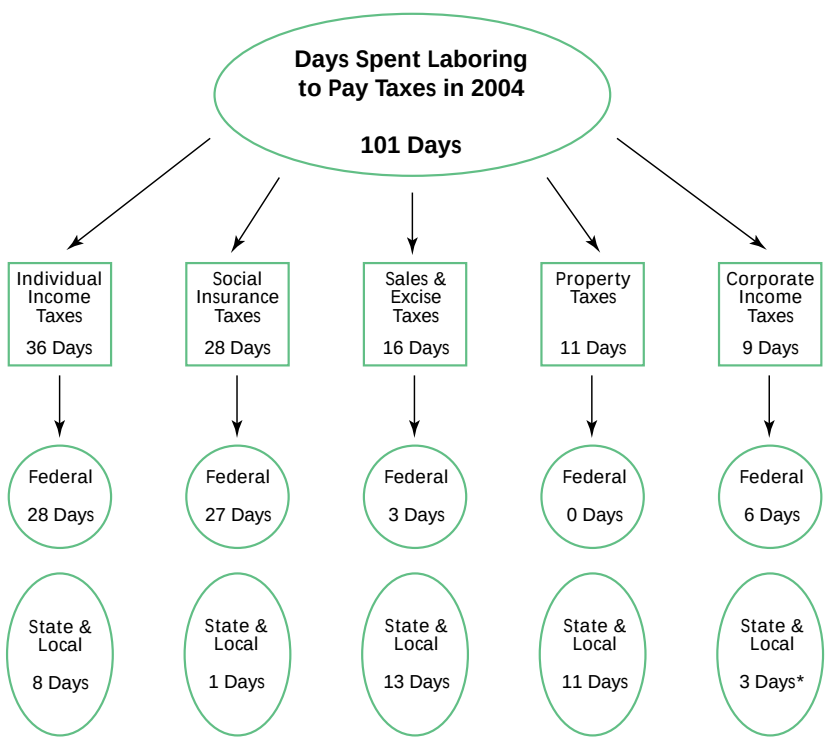
To facilitate comparisons, the report includes a state-by-state ranking of tax burdens with federal taxes excluded. This year, the nation's average state-local tax burden is 10.0 percent of residents' income, with the highest being New York's 12.9 percent and the lowest being Alaska's 6.3 percent.

For historical comparison, in April the Tax Foundation posted to its Web site new estimates of combined state-local tax burdens over the years 1970-2004.

The Tax Foundation is a nonpartisan, nonprofit organization that has monitored fiscal policy at the federal, state, and local levels since 1937.

Bill Ahern is director of communications for the Tax Foundation. His email address is **tf@taxfoundation.org**.

Figure 4: Average Number of Days Worked to Pay Taxes by Type of Tax and Level of Government, Calendar Year 2004



*Includes two days' worth of other business taxes. Note: Due to rounding, components do not add up to total.
Sources: Bureau of Economic Analysis, Congressional Budget Office and Tax Foundation calculations.

Table 1: Tax Freedom Day by State and Rank, Selected Calendar Years, 1990-2004

State	Tax Freedom Day 1990	1995	2000	2004	Rank 2004
U.S.	April 21	April 24	May 02	April 11	-
Alabama	April 12	April 13	April 20	April 01	49
Alaska	April 22	April 11	April 18	March 26	50
Arizona	April 23	April 26	April 30	April 09	22
Arkansas	April 13	April 17	April 24	April 04	39
California	April 19	April 23	May 08	April 13	10
Colorado	April 21	April 22	May 01	April 11	14
Connecticut	April 23	May 06	May 21	April 28	1
Delaware	April 14	April 18	April 25	April 05	33
Florida	April 17	April 24	May 01	April 08	25
Georgia	April 20	April 23	April 29	April 09	21
Hawaii	April 27	April 21	April 30	April 08	23
Idaho	April 17	April 20	April 26	April 05	35
Illinois	April 24	April 25	May 02	April 11	13
Indiana	April 18	April 20	April 25	April 07	28
Iowa	April 22	April 24	April 24	April 03	41
Kansas	April 21	April 22	April 28	April 06	30
Kentucky	April 16	April 20	April 23	April 05	36
Louisiana	April 14	April 11	April 23	April 02	44
Maine	April 19	April 26	May 07	April 15	6
Maryland	April 21	April 23	May 03	April 11	15
Massachusetts	April 20	April 27	May 10	April 18	4
Michigan	April 22	April 21	April 29	April 10	20
Minnesota	April 25	May 02	May 05	April 12	12
Mississippi	April 13	April 16	April 21	April 02	45
Missouri	April 15	April 19	April 24	April 04	40
Montana	April 19	April 20	April 24	April 04	37
Nebraska	April 20	April 24	April 27	April 05	34
Nevada	April 26	May 01	May 05	April 13	9
New Hampshire	April 16	April 21	April 29	April 07	27
New Jersey	April 27	May 02	May 12	April 19	3
New Mexico	April 19	April 19	April 30	April 10	18
New York	May 02	May 04	May 14	April 27	2
North Carolina	April 16	April 18	April 24	April 06	32
North Dakota	April 16	April 23	April 23	April 03	42
Ohio	April 16	April 20	April 26	April 10	17
Oklahoma	April 14	April 14	April 20	April 02	46
Oregon	April 24	April 22	April 26	April 06	31
Pennsylvania	April 16	April 21	April 27	April 06	29
Rhode Island	April 20	April 24	May 07	April 16	5
South Carolina	April 16	April 18	April 23	April 01	47
South Dakota	April 15	April 20	April 22	April 02	43
Tennessee	April 13	April 14	April 18	April 01	48
Texas	April 21	April 21	April 27	April 07	26
Utah	April 21	April 24	April 28	April 08	24
Vermont	April 24	April 27	May 04	April 10	16
Virginia	April 18	April 20	May 02	April 10	19
Washington	May 01	May 03	May 09	April 15	7
West Virginia	April 15	April 14	April 22	April 04	38
Wisconsin	April 26	April 30	May 05	April 13	11
Wyoming	April 26	April 27	May 10	April 14	8
District of Columbia	May 04	May 02	May 18	April 27	-

Note: Leap day is omitted so that dates are comparable in every year.
Sources: Bureau of Economic Analysis and Tax Foundation calculations.

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Elected Officials Nationwide Pledge to Oppose Tax Increases

by Sandra Fabry

According to Grover Norquist, president of the Washington, DC-based Americans for Tax Reform (ATR), 216 U.S. Representatives, 42 U.S. Senators, and more than 1,260 state legislators have taken ATR's "no-new-taxes" pledge.

"Faced with a critical mass of wary taxpayers who seek to distinguish friend from foe in the political jungle, many politicians who side with taxpayers have sought to make clear their commitment to taxpayers' interests by signing the Taxpayer Protection Pledge," said Norquist.

Since 1986, the pledge—a written commitment to oppose and vote against any and all tax increases—has served as a valuable tool to convey to constituents where their elected leaders stand on tax issues.

President George W. Bush also has signed the pledge, as have nine governors, four lieutenant governors, two attorneys general, four secretaries of state, and four state treasurers.

"I signed the taxpayer protection pledge for two reasons: (a) to announce to the world my intention to vote against all tax increases at all times; and (b) to grant to any who may wish a public promise to which I would be accountable."

CALIFORNIA ASSEMBLYMAN
RAY HAYNES (R-RIVERSIDE)

Why Do They Sign?

Lawmakers who sign the pledge "have committed themselves to the principles of limited government and dedicated themselves to taxpayers, rather than tax-and-spenders," said Norquist.

Pledge-signer Virginia Sen. Ken Cuccinelli (R-Fairfax County) says the pledge helps to "reinforce in the public mind what I already stand for. Thus, you could say it has helped my branding."

"I signed the taxpayer protection pledge for two reasons," said California Assemblyman Ray Haynes (R-Riverside). "To announce to the world my intention to vote against all tax increases at all times; and (b) to grant to any who may wish a public promise to which I would be accountable."

The pledge "helps draw a 'bright line' distinction," explained Cuccinelli.

Florida Senator Mike Haridopolos (R-Melbourne) said he signed the pledge because "I firmly believe in the principle that less government is good government. The best way to stop the growth of government is to stop tax increases."

Maryland Senator Alex Mooney (R-Frederick and Washington Counties) agreed. "The most important reason I signed the pledge was because I firmly believe the people already pay enough in taxes. The problem with government is that it spends too much. Families are forced to have both parents working to pay the tax-

Taxpayer Protection Pledge

I, _____,

pledge to the taxpayers of the _____ district
of the State of _____ and to all the people of this state,
that I will oppose and vote against any
and all efforts to increase taxes.

_____ _____
Signed (candidate) Date

_____ _____
Witness Witness

To see a list of "pledge signers" in your state, go to **http://www.atr.org/ads2003.html**.

Americans for Tax Reform | 1920 L Street NW | Suite 200 | Washington, DC 20036

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man, and therefore cannot spend as much time with their children."

Practical Matter As Well

Pledge-signers report it's more than a mere declaration of principle, but has practical value as well. "Once I signed the pledge and was elected," said Mooney, "it was much easier for me to just say no to the continual lobbying for more and higher taxes. I simply tell whoever is asking me to raise taxes that I signed a pledge and intend to keep my word."

The pledge has played a decisive role in tax fights across the country.

Haridopolos recalls the pledge reminded him to hold the line against eliminating a hotly debated tax exemption.

According to Cuccinelli, in Virginia, where legislators recently concluded a fierce tax battle, the pledge was "useful in pointing to the inappropriateness of certain elected officials' current positions vs. where they stood during their election." (See "Virginia Passes $1.6 Billion Tax Hike: Voters May Not Forget," page 5.)

And in California, Haynes recalls the importance of the pledge in holding the line against an attempt by then-governor Gray Davis to increase taxes. "Republicans held firm," Haynes noted, "and the tax pledge was a key part in keeping them committed and accountable to the promise of no new taxes on Californians."

Tax Increasers Pay Political Price

Although the U.S. economy may be recovering from the recent recession, voters remain leery of turning over their hard-earned cash to state policymakers.

In November 2002, Virginia voters resoundingly rejected a sales tax hike proposal.

Two months later, in January 2003, voters in Oregon defeated a tax increase package by a vote of 55 to 45 percent. They made their voices heard a second time, in February 2004, when they rejected a renewed attempt to raid their wallets by a vote of 60 percent to 40 percent.

In Alabama, Gov. Bob Riley (R) learned the hard way that there is no such thing as a sleeping electorate. On September 16, 2003, 68 percent of voters rejected his proposal for a $1.2 billion tax increase.

On September 16 in Seattle—a city not known for having a strong conservative anti-tax constituency—voters overwhelmingly rejected a tax on espresso drinks. Fully 77 percent of those who went to the polls rejected the tax proposal.

The readiness to reach deep into taxpayers' pockets exacted a heavy political toll in 2003 in California, where Democratic Gov. Gray Davis was recalled by his constituents after he had engaged in profligate spending and tripled the car tax. Davis was replaced by Republican Arnold Schwarzenegger, who promised to restore fiscal sanity without raising taxes. On March 2, 66 percent of California voters rejected an attempt to loosen the state's tight supermajority requirement to raise taxes.

Take the Pledge

California Assemblyman Haynes has witnessed firsthand taxpayers' dislike for higher taxes, and he encourages his colleagues across the country to join him in signing the pledge.

"I would recommend to any of my colleagues that they take the pledge, if they are disposed to keep it. Time to deal with legislative issues is limited. Announcing your principles early makes decision making easier, and reassures your constituents of your position. Quite frankly, everyone is happier when they know where you stand on the issue of taxes, and the pledge clearly and decisively establishes that position," said Haynes.

ATR offers the pledge to all candidates seeking office at the state and federal levels and also to sitting incumbents.

Sandra Fabry is an associate for state government affairs with Americans for Tax Reform. Her email address is **sfabry@atr.org**.

Chicago Cigarette Tax Hike Opens Door to Real Vice

by Radley Balko

The controversial Cook County, Illinois cigarette tax hike went into effect on April 1, pushing the price of a pack of smokes in Chicago to $6. Only New Yorkers pay more.

The tax hike might also mean Chicago follows New York's lead in other ways. If the Big Apple's experience is any indicator, Chicago can expect to see an invigorated black market for cigarettes, an increase in the crime and menace that come with black markets, and a growing presence of international terrorist organizations that fund themselves with bootlegged cigarettes.

And, as is always the case with so-called "sin" taxes, Cook County's new cigarette tax will hurt poor Chicagoans the most.

Black Markets and Terrorism

For 50 years, New York City has levied the highest tobacco taxes in the country. And for 50 years, it has battled the unintended consequences. In a policy study published last year by the Cato Institute, Patrick Fleenor documented the results of the Big Apple's half-century experience with tobacco taxes.

Each time the city raised its cigarette tax, sales of cigarettes dropped in the city but skyrocketed in jurisdictions around the city, where taxes were lower. At the same time, law enforcement uncovered more cigarette bootlegging operations, most run by organized crime syndicates. In 1989, city tax official Robert Shepherd told a gathering of tax administrators that in New York City, "It is literally more profitable to hijack a cigarette delivery truck than an armored truck."

New York City's cigarette black market has aided international terrorist organizations and other nefarious elements, including the Russian mafia, Chinatown gangs, the Irish Republican Army, Hezbollah, and al-Qaida. In 2002, Hezbollah ringleader Mohammad Youssef Hammoud was arrested in Charlotte, North Carolina for operating a smuggling ring that purchased low-tax cigarettes in North Carolina and sold them on the black market in high-tax Michigan. Just one van of cigarettes could net as much as $10,000 for the terrorist group.

In London—one of the few cities in the world where cigarette taxes are higher than they are in New York—the Irish Republican Army uses smuggling to help fund its operations. Sweden and Canada have reduced their cigarette taxes after determining the harm wrought by black markets outweighed the generated revenue or costs saved by people persuaded by the tax to quit smoking.

The day after the Cook County cigarette tax hike took effect, the Associated Press reported cigarette retailers in nearby Northwest Indiana saw a surge in sales. Indiana's tobacco taxes are 45 percent lower than they are in Chicago, and Indiana retailers say they expect a windfall.

Much of the sales growth experienced by Indiana retailers will likely come from Chicago smokers willing to drive across the border to stock up. But it would be naive to think a portion of new sales wouldn't go to bootleggers motivated by increased profit margins.

The Trouble with Sin Taxes

Sin taxes are popular with politicians primarily because they generate revenue. At the same time, politicians can claim that revenue with a certain moral rectitude, because it's generated by behavior

many people find undesirable. Politically, it's a great deal easier to sell a tax on bad habits than to increase taxes on hard-earned income.

But sin taxers stand on a very shaky moral high ground, because these taxes are terribly regressive. Not only are the poor more likely to smoke, but they spend a far greater percentage of their income on tobacco when they do.

A 2001 report by the Congressional Budget Office confirmed tobacco taxes encourage people to quit smoking—but those most likely to quit tend to be from middle- and upper-income households. Unlike the poor, the affluent can afford to experiment with anti-smoking programs, can more easily substitute another source of pleasure for tobacco, or generally are less likely to take solace in a cigarette.

That means an already regressive tax grows more regressive over time, as more middle- and upper-income people quit, while lower-income people continue to smoke. Meanwhile, government grows as dependent on the sin tax's revenue as taxpayers are dependent on the sin.

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INTERNET INFO

Patrick Fleenor's February 2003 *Policy Analysis*, "Cigarette Taxes, Black Markets, and Crime: Lessons from New York's 50-Year Losing Battle," is available at the Cato Institute Web site at **http://www.cato.org/pubs/pas/pa468.pdf**.

The Congressional Budget Offices's February 2001 Budget Options report is available online at **http://www.cbo.gov/bo2001/bo2001_showhit1.cfm?index=REV-49**.

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Schwarzenegger

Continued from page 1

again a powerful, job-creating machine."

Schwarzenegger said the measure "would cut down on fraud and waste, and would also aim to get injured workers back on the job without having to fall back on the legal system."

"We cannot continue to force our businesses, nonprofits, and government agencies to be pummeled by costs 2½ times the national average," said Sen. Chuck Poochigian (R-Fresno), the bill's sponsor. "This [legislation] gives California businesses and their workers a fighting chance."

Costly Program

According to research conducted by the California Chamber of Commerce, California employers are paying the highest workers' comp rates in the nation: $6.33 for every $100 in payroll, compared to a national average of $2.46. Over the past four years, costs in the workers' compensation system had increased 136 percent, contributing to an increasingly negative business climate in the state.

Opponents of the reform measure, including attorneys and some injured workers, blamed insurance companies for the high and rising premiums.

Unlike most states, California's workers' compensation system covers all industries and all workers, including employees of small businesses and farm workers. California also covers many injuries and occupational diseases not covered by workers' comp in other states.

The reform package does not change who is covered under the system, but it does change what injuries are covered and the generosity of benefits.

Under the new law, employers will be liable only for the portion of an employee's injury that occurred at work, for example. Employees cannot collect benefits unless their injuries are scientifically measurable using such tests as X-rays or MRIs.

The reform package reduces disability payments from five years to two years. Injured workers, who have been accustomed to choosing their own doctors to treat their injuries, will be required under the new law to choose from a pool of physicians authorized to handle workers' comp matters. Supporters say that will stop injured workers from "doctor-shopping" in search of a more favorable diagnosis. Treatment would be required to meet American Medical Association guidelines.

Reform Sorely Needed

"Skyrocketing workers' comp costs resulting from changes signed into law under former Governor Gray Davis continue to poison the economic environment in a state which is already the highest taxed in the West," said political consultant Ron Nehring.

"California's workers' compensation system is a terrific economic engine—for Nevada," he remarked.

Grover Norquist, president of Americans for Tax Reform, agreed. "Workers' compensation really is a hidden tax, the cost of which is passed on to the worker in the form of lower wages. It drives businesses out of California and to states with significantly lower levels of workers' compensation cost."

Political Battle

In 2003, Davis signed a workers' comp reform bill he praised as a "complete overhaul" ... but California's workers' comp costs remained high above the national average.

Schwarzenegger, who had made reform of the state's workers' comp system a top priority during his campaign, called a special session of the legislature to address the matter. He threatened to place a reform bill on the November 2004 ballot if lawmakers refused to support his plans and failed to take action by March 1.

"If modest reform is all that lands on my desk, I am prepared to take my workers' comp solution directly to the people and I will put it on the ballot in November," Schwarzenegger said.

As the March 1 deadline passed without agreement in the legislature, the governor publicly expressed his support for the Committee for Workers' Compensation Reform and Accountability, which was sponsoring an initiative to place the "Workers' Compensation Reform and Accountability Act" on the ballot.

The legislature finally passed legislation to reform the system on April 16. The governor signed the bill three days later.

EPA Photos

California Governor Arnold Schwarzenegger (C) is applauded after signing SB 899, the workers' compensation reform bill, at a Boeing manufacturing facility in Long Beach, California, on April 19. The measure provides for a complete overhaul of California's workers' compensation system.

"No longer will workers' compensation be the poison of our economy. Our message to the rest of the country and the world is that California is open for business. We are making our state once again a powerful, job-creating machine."

GOV. ARNOLD SCHWARZENEGGER

Cost-Containment Will Help

The signed legislation is less restrictive than the measure activists and the governor had threatened to take to the ballot. Nevertheless, most observers agree the signed bill will help reinvigorate California's business climate.

Joel Fox, president of the Small Business Action Committee (SBAC) and sponsor of the ballot initiative, noted, "The proposed initiative would have drawn the rules tighter, but given the political realities, we got quite a bit of what we wanted, and although the bill that was passed is not everything, it brings about great improvement for California's economy."

According to a preliminary estimate by the University of California at Berkeley's Survey Research Center, the bill will generate $4 billion in savings in 2006. The center projects an additional $9.5 billion in savings from cost-containment measures adopted last year and slower projected growth in claims. The center estimates the state's workers' comp costs would have reached $30.6 billion in 2006 without the reforms. With the reforms, cost are projected to be $17.1 billion.

Although the new legislation does not go as far as Fox and other initiative proponents would like, he said they would not pursue putting the initiative on the ballot. The group had collected 1.2 million signatures, well in excess of the required 598,105, but Fox felt momentum was waning. "Taking into account the nature of politics here, we realized that once the deal was done, and the people of California understood that the deal was done, the governor would not have been behind the initiative anymore, and there was no point in continuing to push for it to be placed on the ballot."

A Victory

"While California is still far away from the 'miracle of Sacramento' the governor was hoping to bring about, the workers' comp reform passed by the legislature constitutes a huge victory for Schwarzenegger, particularly given the political realities in the predominantly liberal state," noted ATR's Norquist.

"We will need to do more reform next year," acknowledged Assemblyman John Campbell (R-Irvine). "But, thanks to Arnold Schwarzenegger, Republican leadership, and an initiative, we have begun to lower the cost of doing business and creating jobs in California for the first time in over five years."

"Why have we waited this long to do these reforms?" asked Assemblyman Russ Bogh (R-Cherry Valley). "It's no accident, let's be honest. We are here today because of one thing—because over 1 million people answered Gov. Schwarzenegger's call for signed petitions to reform workers' compensation."

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Time to Reform Workers Comp in NY State, Gov. Agrees

by Matthew Maguire

New York State employers, in a survey released by The Business Council of New York on April 19, overwhelmingly agree their workers' compensation costs have "increased in the last five years" and those costs are "limiting employers' opportunities to grow, hire new workers, and sustain other business investments."

"New York's workers' comp costs have long been above average by every measure we have seen, and this survey confirms that this difference has very negative consequences for New York's prosperity," said Daniel B. Walsh, president and CEO of The Business Council. "Other states have enacted reforms to help contain costs, and we agree with Governor Pataki that it's time for New York to do the same."

Gov. George Pataki

New York Governor George Pataki announced his reform proposal at The Business Council's Small Business Day March 23 in Albany. The governor's plan would cut employers' costs by 15 percent while raising maximum benefits by 25 percent. That reform package, which The Business Council is supporting, has been introduced in the Senate (S 6841) and is pending in the Rules Committee. The bill would:

■ Limit the duration of benefits in cases for which the level of benefits is not defined by statute. Currently, these cases in which benefits are not "scheduled" account for 13.6 percent of claims but more than 76.6 percent of overall costs.

■ Reduce surcharges now imposed on employers' premiums, called assessments, by adjusting the calculation used to determine assessments. Currently, assessments are based on 150 percent of the previous year's disbursements from a special fund. The proposed change would lower that rate to 125 percent. The Business Council has strongly supported such a reduction in assessments.

Survey Responses

"More than a third of respondents to the survey said New York's workers' compensation costs are encouraging them to consider relocating their business out of state. And about one in five respondents said these costs are forcing their businesses to either leave the state or expand elsewhere," noted Walsh.

The survey was sent to members of The Business Council and other employer associations in New York. There were 308 responses.

In response to specific survey questions:

■ Ninety-three percent of responding employers who compared New York's workers' comp costs to other states said New York's are significantly (73 percent) or somewhat (20 percent) higher.

■ Fifty-nine percent of respondents said workers' compensation costs limit their business growth and expansion. Among respondents with 200 or more employees, 68 percent said these costs limit growth and expansion.

■ Fifty-two percent of respondents said these costs prevent them from hiring more workers.

■ Fifty-eight percent of respondents said these costs require them to scale back other business investments to pay workers' comp costs.

■ Thirty-four percent of respondents said these costs are encouraging them to consider relocating the business out of state. Nearly four of 10 respondents with 200 or more employers said these costs encourage them to consider such a move.

■ Nineteen percent said these costs are already forcing them to leave the state or expand elsewhere. More than one of four employers with 200 or more employees said these costs are having this effect.

■ More than seven of 10 respondents said New York's workers' compensation costs in the past five years have either increased somewhat (36 percent) or increased significantly (36 percent). One responding employer said costs had gone down only because it had been forced to trim jobs in large part because of high workers' comp costs.

Momentum for workers' comp reform has been building statewide. As of April 19, a New York Web-based "electronic advocacy" campaign had produced 7,972 letters from 1,679 individuals. Those letters, faxed to lawmakers in Albany, express support for reform, thank the governor for his reform proposal, and urge lawmakers to reject a bill that would increase benefits without enacting cost-cutting reforms. The Business Council is conducting the letter-writing campaign with the Chamber Alliance of New York State, dozens of local and regional chambers, and other business associations around the state.

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Chamber

Continued from page 1

the state's practice of inappropriately and excessively taxing employers. "The Illinois business community recognizes that the state continues to face serious budget problems," said Ray Neisewander III, chairman of the Illinois Chamber Board and executive vice president of Raynor Garage Doors in Dixon, Illinois. "However, the employers of this state already pay more than half of all the state and local taxes collected in Illinois. Employers do not want another round of unjustified fee increases when the FY05 state budget is passed."

Inappropriate Funds-Shifting

In 2003, the governor and Illinois General Assembly raised licensing and other fees in more than 300 areas applicable to Illinois employers. The lawsuit charges that since then, the governor's office has inappropriately transferred millions of dollars generated by these special-purpose fund fee increases to cover General Revenue Fund spending.

The Illinois Chamber's complaint challenges the newly imposed Industrial Commission Operations Fund Surcharge, which requires all Illinois employers to pay a fee to operate the Illinois Industrial Commission, the agency that oversees workers' compensation.

While the Illinois Economic and Fiscal Commission estimates the new surcharge will generate more than $31 million, total appropriations for the Industrial Commission in the 2004 Illinois State Budget are under $14 million. The Illinois Chamber asserts the state is deliberately generating more than twice the Industrial Commission's needed revenue to improperly subsidize Illinois' overall budget shortfall.

The Industrial Commission Operations Fund Surcharge is indicative of the excessive nature of many business fees imposed by the Blagojevich administration to generate money for the state, according to the Illinois Chamber.

Inappropriate Fee Increases

While the lawsuit addresses the Industrial Commission Operations Fund Surcharge specifically, the Illinois Chamber believes that surcharge is only one of many inappropriate, arbitrary, and excessive fee increases that illegally generate funds for the state's General Revenue Fund and are not limited to the specific underlying statutory programs for which they were intended.

An example of other problematic fees is the Used Vehicle Dealers License, which increased 2,000 percent from $50 in 2003 to $1,000 in 2004 and beyond. The Illinois Environmental Protection Agency introduced more than 60 new fees in 2003 and raised many existing fees by as much as 250 percent in 2004. EPA fees are expected to generate more than $60 million this year alone, by far the most of any state agency and more than double the agency's 2003 budget.

A new Commercial Distribution Fee was imposed on trucks in 2004, in addition to the numerous taxes and fees already paid by such vehicles. The new fee is paid to the Secretary of State but deposited in the General Revenue Fund. According to the Illinois Chamber, this "fee" appears to serve no purpose other than to raise revenue for the state's general fund.

Alarmingly, the governor recently has proposed nearly 200 additional fee hikes on Illinois employers to raise an estimated $57 million more in fee revenue for the FY05 budget.

Lawful to Discriminate?

The Illinois Chamber is asking the court to rule on whether it is lawful for the state to discriminate among fee payers and specifically burden one group—in this case businesses and employers—with providing funds to finance all government programs.

The governor must either restrain spending to align government expenditures with existing revenue, or seek additional revenue from all the citizens of Illinois, said the Chamber. Employer fee increases are creating a hostile environment by ignoring the economics that encourage investment and job growth.

Illinois courts have in the past ruled unconstitutional fees that are assessed in an arbitrary manner and that have no relationship to the services rendered or the purpose of the underlying legislative act. Also, the Illinois Supreme Court has ruled the state may not arbitrarily single out one group for taxation where no substantial difference exists between that group and others not taxed.

Named as defendants in the suit are John Filan, director of the Office of Management and Budget; Illinois State Treasurer Judy Baar Topinka; Dennis R. Ruth, chairman of the Illinois Industrial Commission; and Deirdre K. Manna, acting director of the Illinois Department of Insurance.

Doug Whitley is president and CEO of the Illinois State Chamber of Commerce.

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STUDY

Kerry Tax Plan Starts Class War

by William W. Beach

U.S. Senator and Democratic Presidential candidate John Kerry (D-Massachusetts) presents his economic plan for the country August 28, 2003.

Getty

According to *Financial Times* columnist Amity Shlaes, "George W. Bush has a war, and now John F. Kerry has one too—a class war."

At Georgetown University in April, Kerry opened fire when he vowed to raise taxes on the top 2 percent of wage-earners in the U.S. while cutting taxes on the other 98 percent. The idea is not only to create jobs—Kerry says he can get 10 million—but to create economic opportunity. Shlaes wrote, "Kerry wants to plow through class barriers like an Abrams tank. Or, as he put it, to reclaim America on behalf of those who seek paths to a better life."

Kerry, the Presidential nominee of the Democratic Party, has proposed a number of changes to U.S. tax policy that he argues will boost the economy's performance and increase jobs.

"John Kerry has a plan to secure America's economic future and ensure that workers can achieve the American dream in our changing economy," claimed Kerry's Web site on May 7. "His vision is to put Americans back to work; make America's economy the most competitive in the world; and to restore America's values of equity and fairness to our tax code by helping America's middle class families and small entrepreneurs succeed."

However, an econometric analysis of the Kerry plan, released on April 16 by The Heritage Foundation, shows the negative effects of an increase in taxes for high-income taxpayers overwhelm the positive effects of making key elements of the Bush tax plan permanent for taxpayers with incomes under $200,000. The net effect, according to the study, is "a slower economy and job creation significantly below potential."

The analysis estimates the effects of the Kerry tax plan using a standard macroeconomic model of the U.S. economy. The analysis shows:

- *Employment growth under the Kerry plan recedes.* Employment growth reflects the slower pace of economic activity. Under the Kerry plan, the annual rate of non-farm employment growth will be consistently below forecast each quarter for the 10 years following January 2005.
- *GDP slows.* The nation's output of goods and services quickly drops below current forecasts under the Kerry plan, and growth remains slower throughout the next 10 years.
- *After-tax income shrinks.* Income after taxes, or inflation-adjusted disposable personal income, is below baseline in each year of the forecast under the Kerry plan.
- *Savings plummet.* Lower disposable personal income means the Kerry plan would bring lower personal savings.

"So even as he talks of breaking down class walls, Kerry is reinforcing those walls. Even as he talks of growth, he is laying plans that would slow it. It doesn't get more inconsistent than that."

AMITY SHLAES

Kerry Tax Plan

Kerry mixes tax cuts with tax increases in his proposed tax plan. Though many details remain to be announced by the Senator's tax team, the following appear to be principal, well-developed elements of his plan and were incorporated in the economic analysis of his proposals:

- For taxpayers with incomes above $200,000, the tax benefits of policy changes from 2001 and 2003 no longer apply. Their first dollar is taxed at 15 percent rather than 10 percent, and their last dollar is taxed at 39.6 percent rather than 35 percent. Other anti-growth changes are also made.
- While Kerry's campaign has been relatively silent on federal estate and gift taxes, the study assumes the senator will propose a halt to plans to expand the estate tax exemption amount and reduce the estate and gift tax rates, as well as repeal of the estate tax in 2010.
- For individually filing taxpayers with incomes below $200,000, Kerry proposes to make several of the Bush tax cuts permanent. The senator would keep the 10 percent tax rate and the expanded tax bracket. He would make permanent marriage penalty reforms. And he would permit taxpayers earning less than $200,000 to keep the $1,000 per child tax credit.
- The senator provides additional tax cuts to cover health care costs. For taxpayers with incomes below $200,000, Kerry proposes a health care tax credit for those who retire early and for those who are between jobs.

The net effect of these tax policy changes, not counting the negative economic feedback they would cause, is a net tax increase of $609 billion over the 10-year period beginning January 1, 2005.

Weak Approach

While these economic estimates are likely to change as Kerry announces more details about his tax plan, they strongly indicate the weakness of his current approach. Raising taxes on high-income taxpayers to cover budget shortfalls may make political sense, but it is not the right move to encourage economic growth.

"So even as he talks of breaking down class walls, Kerry is reinforcing those walls," Shlaes concludes. "Even as he talks of growth, he is laying plans that would slow it. It doesn't get more inconsistent than that."

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STUDY

Tax Relief Opponents Have Agendas of Their Own

House Members who oppose marriage penalty relief seek dramatically increased federal spending

by Peter J. Sepp

According to a study released by the National Taxpayers Union Foundation (NTUF) on May 3, "lawmakers who opposed House bill H.R. 4181 [in late April] to make marriage penalty tax relief permanent on the basis of deficit fears were concealing fiscal agendas of a far different kind." NTUF found 22 of the 95 House Members who opposed the legislation had supported bills that would increase federal spending by more than $1.5 trillion per year.

"Many opponents of H.R. 4181 framed their arguments in terms of fiscal responsibility," said NTUF President John Berthoud, author of the study. "If we take these 95 Members at their word, and understand them to be concerned about fiscal imbalance, we might imagine that they would show prudence on the spending side of the ledger as well. Unfortunately this is not the case."

To determine the dollar cost of the 95 House Members' legislative agendas, Berthoud used NTUF's BillTally cost accounting system, which computes a net annual agenda for each Member of Congress and has done so since 1991. BillTally results are based on each Member's individual sponsorship and cosponsorship of pending legislation. The study offers a unique look at the fiscal behavior of lawmakers, free from the influence of committees, party leaders, and rules surrounding floor votes.

Among Berthoud's findings:

- On average, the net agendas of the 95 marriage tax relief opponents would increase federal spending by $583 billion per year ($5.83 trillion over 10 years). By contrast, the 10-year "cost" to eliminate the marriage penalty was $105 billion, less than 2 percent of their spending agendas. Despite Congress's tendency to define tax reduction as a "cost," many taxpayers may not consider keeping more of their money a "cost" at all.
- The average Member (of the 95 opponents) sponsored or cosponsored more than 75 bills to increase federal spending in 2003, compared to merely one bill to cut federal spending during that period.
- Twenty-two of the 95 Members had net agendas to increase federal spending by more than $1.5 trillion per year—more than the entire federal government spent just 10 years ago.

Berthoud observed that opponents of H.R. 4181 support the contention by some budget experts that when lawmakers debate fiscal policy, and particularly tax cuts, they are more concerned about having resources to distribute to their constituents via government programs than just the conventional balance of payments.

"It seems reasonable to conclude that opponents of H.R. 4181 were less concerned about the bill's effect on deficits and more concerned about Washington losing dollars that it could otherwise spend on building bigger government," Berthoud concluded.

NTUF is the research affiliate of the 350,000-member National Taxpayers Union.

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INTERNET INFO

NTUF *Issue Brief* 147, "Opponents of Marriage Penalty Relief: What's Their Real Agenda?" and BillTally *Policy Paper* 150, "Operation Enduring Deficits: Marshalling Taxpayer Dollars into New Programs," are available online at **http://www.ntu.org**.

Measure to Extend Marriage Penalty Relief Passes House

by John Gentzel

By an overwhelming bipartisan majority on April 28, the U.S. House of Representatives passed H.R. 4181, a bill its supporters say would save millions of families from paying higher taxes next year. Introduced by Rep. Jim Gerlach (R-Pennsylvania), the bill would permanently eliminate the marriage penalty. The penalty is currently temporarily phased out, thanks to tax cut legislation passed in 2003, but it will go back into effect, with an increase, in the 2005 tax year.

"This bill is about American families and couples who shoulder an additional and unnecessary tax burden simply because they're married," Gerlach said of H.R. 4181, which passed the House 323 to 95. "Until 2003, married couples who filed a joint return paid taxes they wouldn't have been responsible to pay had they filed separately. My bill extends permanently tax relief aimed at leveling the playing field for married couples."

The bill makes permanent the marriage penalty relief that was originally enacted as a phased-in tax change in the Economic Growth and Tax Relief Reconciliation Act of 2001, and then temporarily accelerated in the Jobs and Growth Tax Relief Reconciliation Act of 2003.

Specifically, H.R. 4181 amends the Internal Revenue Code in two ways:

- It permanently extends the amount of the standard deduction for joint filers to double that for single filers.
- It increases the upper bound of the 15 percent tax bracket for joint filers to double that for single filers.

"Couples shouldn't be punished with higher taxes simply because they're married," Gerlach said. "This bill ensures the marriage penalty relief isn't reduced next year and stays in the law permanently. Ultimately, this puts money that never should have been collected in the first place back where it belongs—in the pockets of families."

Currently, 36 million couples across the country are estimated to benefit from the elimination of the marriage penalty. Prior to H.R. 4181, that relief was slated to be reduced next year and completely eliminated by 2010. H.R. 4181 prevents more than 27 million married couples from facing an average tax increase of $300 in the 2005 tax year, and more than 35 million married couples from seeing their tax bills rise by more than $700 starting in 2011.

H.R. 4181 also was amended to extend 2001 tax relief to married couples eligible for the earned income tax credit. "The 2001 tax relief bill addressed the unfairness of the treatment of married couples seeking their income eligibility level for the credit. The relief is scheduled to expire after 2010. H.R. 4181 would continue the relief permanently," noted Gerlach.

A similar bill is pending in the Senate.

John Gentzel is press secretary for Rep. Jim Gerlach. He can be reached at 202/225-4315. *Rep. Gerlach can be reached online at* **http://www.house.gov/gerlach/contact.shtml**.

INTERNET INFO

Married couples interested in seeing how much they'd save under H.R. 4181 are encouraged to visit **http://www.speaker.gov** for an online marriage penalty tax calculator. The site, provided by the Speaker of the House of Representatives, also offers a complete one-stop shop for Americans looking for tax relief information.

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Medicare, Social Security Need Big Changes for Young to Benefit

by Terry Savage

Medicare is running out of money—faster than anyone predicted. For the first time ever this year, the fund that pays seniors' hospital bills will pay out more than it takes in from payroll taxes. The entire Medicare system is likely to go broke in 2019—seven years earlier than previous estimates—according to the Medicare trustees who administer the federal health care program for seniors.

Those estimates don't include Social Security trust funds, which are expected to have a negative outflow of cash by 2018—and to become completely insolvent in 2042.

That sounds like a long time away, but if you're a 27-year-old in the work force today, and have some vague impression that you're going to retire at age 65—in 2042—don't count on having any money except what you've saved.

And it will be increasingly harder to save for your own retirement, because you're going to be taxed more heavily every year to pay for your parents' Social Security—along with a whole bunch of strangers who will depend on your taxes.

[I've raised a great son, and he might take care of me if I need it. But I doubt that he'll be willing to take care of you—especially when he learns that half of his taxes will go toward Medicare, not toward national defense or rebuilding the roads and bridges that will surely be crumbling in 2042.]

Didn't anyone see this coming? Yes, lots of people. But all the wrong people. Politicians—the only people capable of reforming the system—considered any discussion of changing Social Security or Medicare to be the untouchable "third rail"—a topic that would destroy their political careers.

Even today there is broad denial. Just as the trustees report hit the wire services, an organization called "Medicare Rights Center" sent out this e-mail bulletin—a study in denial:

"Medicare is no closer to insolvency than the Department of Defense. Since its origin Medicare has been funded from the same tax revenue as the Army, Navy and Marines. Added to those funds has always been dedicated revenue from every worker's payroll tax. The only thing to fear is the President or Congress breaking faith with our 40-year commitment to ensuring health care for older Americans."

The Savage Truth is that if we continue to fund Medicare out of taxes, there will be very little money left for the defense of our nation. Medicare will quickly consume more and more of all the income taxes collected. According to the trustees of the Medicare program, by 2019, 24 percent of all income tax revenues will be needed for the Medicare program. By 2042, 51 percent of all income tax revenues will have to go to Medicare.

"[T]his message is aimed ... at you 20- and 30-year-olds. It's a reality check. You certainly won't realize anything from these government programs you're paying into unless there are radical changes. Better start saving now."

The facts are simple and obvious. When Lyndon B. Johnson introduced Medicare in 1965, it was predicted to pay for itself out of an increase in the payroll tax. But things have changed. We're living longer. We have new and expensive medical procedures and technology. Health care costs continue to soar even while the general level of consumer prices reflects little inflation.

But the real crisis is coming quickly. We will now face the retirement years of the baby boom generation—those born between 1946 and 1964. In 2000 there were 40 million Americans in the Medicare program. By 2030 it's estimated that number will nearly double—to 79 million Americans receiving Medicare benefits.

And we keep digging ourselves a bigger hole by adding to those benefits. In a report timed to coincide with the Medicare trustees forecast, The Heritage Foundation is forecasting that the recently approved drug benefit could add $16.6 trillion to the long-term unfunded liabilities of the Medicare program.

Politicians' promises and programs win votes—but at what cost to ourselves and our children?

There are two inescapable conclusions:

- We're setting ourselves up for generation warfare. Today's 20-somethings will rebel at paying huge tax increases to cover the parents of strangers. We'll need to placate them with unlimited, tax-deductible private retirement savings accounts.
- If you're in the baby boom generation, you're going to need more money than you ever considered—not to retire and play golf, but to cover the health care costs that Medicare simply won't be able to provide.

Yes, it's scary stuff—enough to make you open an IRA. And this message is aimed not just at those who are approaching retirement, but at you 20- and 30-year-olds. It's a reality check. You certainly won't realize anything from these government programs you're paying into unless there are radical changes. Better start saving now. That's The Savage Truth.

Terry Savage is a syndicated columnist with the Chicago Sun-Times. *Her email address is* **Terry@TerrySavage.com**. *Distributed by Creators Syndicate.*

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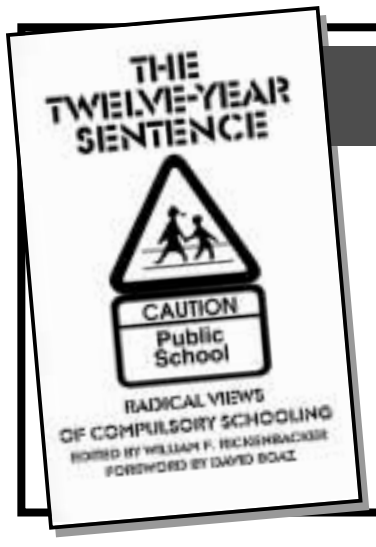

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Words Are Good but the American People Need Action

by Bob Costello

In his January 2004 State of the Union address, President George W. Bush reaffirmed his commitment to Social Security reform, saying, "Younger workers should have the opportunity to build a nest egg by saving part of their Social Security taxes in a personal retirement account. We should make the Social Security system a source of ownership for the American people."

These are good words, but without leadership to move this proposal forward they are only words. For there to be meaningful reform of our retirement system we need leadership *now*. The longer we wait, the worse the problem gets. It would be intolerable to let the opportunity pass during this critical election year.

The American people understand Social Security needs fixing—they are ahead of the politicians on this issue. Only the President, using the full influence of his office, can make this happen.

Americans will rally behind Bush if he leads with an Ownership Society program that includes personal retirement accounts. With such an initiative, Bush will win re-election ... and he will have the mandate to pass through Congress in 2005 real Social Security reform.

Americans know Social Security is a demographic time bomb. Its "pay-as-you-go" financing worked in the 1950s, when there were 16 workers for each retiree. But increased life spans and lower birth rates mean more retirees to support and fewer new workers to support them.

Today, there are only 3.3 workers per retiree, and Social Security taxes have had to be raised many times already to pay promised benefits. By 2035, there will be only two workers per retiree, and taxes would need to rise from the current 12.4 percent rate to 18 percent or more to pay the benefits the current program has promised.

"We need to turn the current Social Security crisis into an opportunity to modernize the system to give individual workers control and ownership over their retirement assets."

Personal Retirement Accounts

It's time to look at personal retirement accounts (PRAs).

Many people are shocked to learn the money they have been paying into Social Security over the years—more than 12 percent of their paychecks—has never been saved for their own retirement. Instead, it has paid for the benefits of current retirees, and anything left over has been spent by politicians on other programs.

America does not face this demographic crisis alone. All over the world—in Europe, Australia, Japan, and elsewhere—societies have had to confront the crisis of an aging population. Some nations have chosen an innovative approach that preserves the safety net for retirees and older workers while giving younger workers the opportunity to build a nest egg for their own retirement: personal retirement accounts in Social Security.

PRAs would make every worker a saver. Many families don't have the money to save after they've paid the mortgage and put food on the table, on top of the 12.4 percent Social Security payroll tax. PRAs would allow them to save some of the money they currently pay in payroll taxes so they could build a nest egg of retirement wealth.

PRAs would give every worker an ownership stake in Social Security, not just a flimsy promise from the politicians about a "lock box." Workers who died before their Social Security eligibility date could pass along their retirement savings to spouses or children—a right denied to millions of African-American men who die on average years before they are eligible to collect Social Security benefits.

We need to turn the current Social Security crisis into an opportunity to modernize the system to give individual workers control and ownership over their retirement assets. PRAs would give every worker dignity and a sound, stable financial plan that no one—not even the politicians—could take away.

Other countries have had a great deal of success in enhancing Social Security to give workers an ownership stake in their retirement. Chile, Great Britain, Australia, and former Soviet bloc countries already have adopted this common-sense approach. Even China and socialist Sweden have done so! If workers in those countries can save for their own retirement, why can't American workers?

The time for Presidential leadership on Social Security is now. It is time to give American workers the dignity, choice, and control to save for their own retirement.

Bob Costello is president of SocialSecurityChoice.org. *His email address is* **bob@socialsecuritychoice.org**

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